CITY OF CODY
WYOMING

# 5 Year Financial Trend Report

FINANCIAL CONDITION ANALYSIS
For the Five Year Period of FY2007-2008 through FY2011-2012

**Report Date: January 2013**

# INTRODUCTION

Financial management is one of the most challenging responsibilities facing local governments, and cities across the country are more aware than ever that they must achieve a level of fiscal health to be sustainable over the long term. Governments can utilize analytical skills and financial indicators to perform assessments of the organization's fiscal health. With the information gained from this kind of assessment, the organization can determine what symptoms might be contributing to its fiscal distress and what additional testing and analysis needs to be done in order to get a more accurate picture of the organization's fiscal problems. Problems can then be treated in the most effective way to achieve the level of fiscal health that needed in order to serve its citizens. There are several advantages to providing a long-range assessment of financial condition including:

- Improving the quality of information for making policy and budgetary decisions
- Identifying emerging trends in order to take corrective or proactive action
- Providing a graphical analysis for review and tracking of trends
- Utilizing the trends of specific financial indicators to guide budget decisions and priorities

**Financial Condition**

Financial condition is defined as the ability of a local government to balance recurring expenditures with recurring revenues, allowing cities to provide necessary services on a continuing basis. A city in good financial condition is able to maintain adequate service levels during economic downturns and is able to develop resources to meet future needs. In contrast, a city in fiscal stress struggles to balance the budget, experiences service disruptions and has limited resources to finance future needs. Maintaining a sound financial condition requires governments to adjust to long-term changes in community needs and develop the ability to plan for the future.

There is no single measure that fully captures the financial condition of a governmental entity therefore it is necessary to take a comprehensive approach that focuses on both external and internal fiscal factors.

Financial condition is affected by a combination of environmental, political, fiscal and organizational factors. For example a steady population decline can lead to an erosion of the property tax base. However, the ways in which local officials respond to this decline (such as cutting services, increasing tax rates, or engaging in economic development) also affect the financial condition of a city.

Environmental factors include measures of community needs and resources such as population, property value and poverty, and economic factors such as inflation, personal income and employment. These indicators often provide the best "early warning" of future fiscal stress.

Financial factors include intergovernmental constraints such as tax and debt limits, access to major revenue sources (such as sales tax), and mandated expenditure requirements. These fiscal constraints often limit the choices available to local officials in managing their budgets.

Organizational factors include management practices and governing body policies that guide fiscal decision making, often in response to environmental or political factors. While sound budgeting and management practices can help protect the financial condition of local governments, these factors cannot always avert fiscal stress — especially when negative environmental trends are severe. However, ineffective budgeting and management practices can create fiscal problems despite a sound economic environment.

**Financial Trend Monitoring**
The Financial Trend Monitoring System (FTMS) was developed by the International City/County Management Association (ICMA) as a method for monitoring the financial condition of local governments and identifying factors that affect financial condition. The indicators described in the ICMA publication, Evaluating Financial Condition, A Handbook for Local Government, are designed to give local governments a method of monitoring financial condition using data that is easily accessible. The FTMS is intended to be used as a management tool that can help shape long term policies and priorities.

**Financial Indicators**
There are over 40 standard indicators that can serve as an evaluation basis for the financial condition of a city. For this report the indicators that best fit the City of Cody's accounting structure were chosen and are broken into the following sections: Community Resource Indicators, Revenue Indicators, Expenditure Indicators, Operating Position Indicators, and Debt Indicators.

**Adjusting For Inflation**
Adjusting for inflation converts current dollars into constant dollars. The conversion from actual dollars to constant dollars allows for analysts to take into account the appearance of growth that may be due to inflation. Adjusting for inflation involves three steps. The first step is selecting a price index. For this report the final 2011 and 2012 CPI estimates from the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) were used. The second step is selecting a base year as the starting point for comparison. The year 2007 is used as the base year in this report. The third step is the conversion from actual to constant dollars. This is achieved by multiplying the actual dollar amount for a given year by the conversion factor for the year you want to convert. For example, to convert $1,000 of 2012 dollars to 2007 dollars the formula would be: $1,000 x .922 = $922. Data presented in constant dollars is identified as such in the appropriate trends.

**Report Focus**
Information in this report has been developed in order to provide a long-range picture of the financial condition of the City. The focus of this report is mainly on General Fund operations however there are some trend indicators which include Enterprise Fund operations as well. These are identified as such in the affected sections.

**Caveats of Financial Analysis**
It is important to keep in mind that financial analysis is more of an art than a science. There are not many absolutes when it comes to assessing the financial status of a government because of the wide variety in aspects of financial health. Additionally, judgments and interpretations of financial data can often be subjective as some users of financial information may be more focused on the cost of services while others may concentrate on ratios for short-term and long-term projections.

Despite all the positive uses of financial ratios, however, users of financial trend data should be aware of the limitations of ratios. It is important to remember that the numbers used to compute financial ratios are often based on assumptions and varying accounting principles therefore different organizations may arrive at their numbers differently which can make comparisons difficult.

**Data Sources**

The financial indicators used in this report have been derived from ICMA and GFOA financial trend monitoring models as well as Standard & Poor's Municipal benchmarking system. The community economic and demographic statistical data was obtained from the Bureau of Economic Analysis, State of Wyoming Economic Analysis Division, U.S. Census Bureau, U.S. Department of Labor, Park County Assessor, National Consumer Price Index, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO).

List of Other Sources:

- City of Cody Basic Financial Statements for FY07-08 through FY10-11
- City of Cody Budgets for FY07-08 through FY11-12
- Government Finance Officers Association
- International City/County Management Association
- Standard & Poor's Municipal Benchmarks Assessing Local Performance and Establishing Community Standards

# COMMUNITY RESOURCES INDICATORS

Community Resources Indicators encompass economic and demographic characteristics including population, personal income, property value, and employment. These indicators describe a community's wealth and its ability to generate revenues. It also constitutes the demand which the community will make on its government such as public safety, capital improvements and social services. Changes in economic and demographic characteristics are most useful for long term financial analysis.

Community needs and resources are all closely interrelated and affect each other in a continuous cycle of cause and effect. In addition, changes in these characteristics tend to be cumulative. An evaluation of local economic and demographic characteristics can identify the following types of conditions:

- A decline in tax base as measured by population, property value and employment history
- A need to shift public service priorities because of a change in demographics in the community
- A need to reassess public policies due to changes in economic and demographic conditions

The following Community Resources Indicators have been chosen for this report:

1. Property Valuation & Valuation per Capita
2. Personal Income Per Capita
3. Employment Base

# Property Valuation

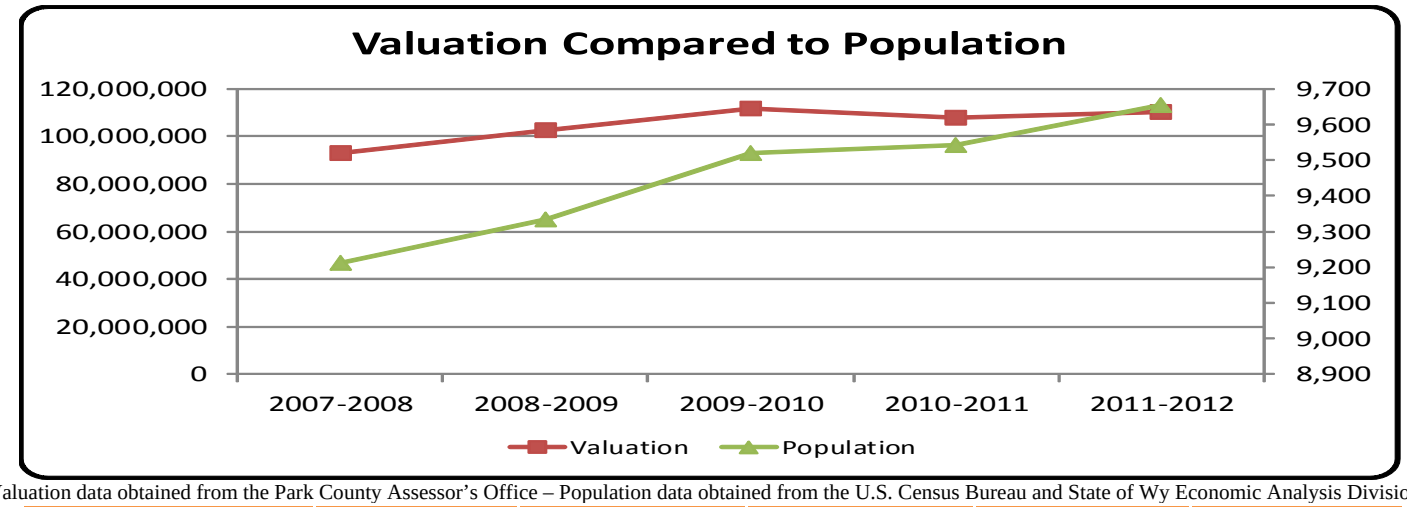
**Description:** Property values reflect the overall strength of a community's real estate market. This market, in turn, reflects the strength of a city as a whole. Changes in property value are important because the City depends on the property tax to help support core services such as police and streets. Declining property values are often a symptom, rather than a cause, of other underlying problems.

**Warning Trend:** Declining growth or drop in the market value of property

**Condition:** Neutral

**Analysis:** For the three-year period from FY07-08 to FY09-10 property valuations in the City of Cody increased approximately 20%, representing a gain in valuation of about $18.6 million. In FY10-11 the City began to feel the effects of the recession on the local real estate market and property values declined, losing over $3.8 million in value over the one-year period. Since FY10-11 property valuations have shown a slight improvement, gaining back $2.2 million in value in FY11-12.

The City's population has exhibited a slow growth pattern showing an overall 4.8% increase in the five-year period with no sudden increase which can create immediate pressures for new capital outlay and higher levels of service. The valuation per capita has also remained consistent over the 5-year period. The following chart shows the valuation compared to population over the 5-year period analyzed.




Valuation data obtained from the Park County Assessor's Office – Population data obtained from the U.S. Census Bureau and State of Wy Economic Analysis Division

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Valuation | $93,136,164 | $102,516,675 | $111,766,898 | $107,877,754 | $110,081,642 |
| % Change in Valuation | | 10.07% | 9.02% | -3.48% | 2.04% |
| | | | | | |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| % Change Population | | 1.34% | 1.98% | .22% | 1.17% |
| | | | | | |
| Valuation per Capita (in constant dollars) | $10,110 | $10,576 | $11,341 | $10,753 | $10,514 |
| % Change in Valuation per Capita | | 4.60% | 7.24% | -5.19% | -2.22% |

# Personal Income per Capita

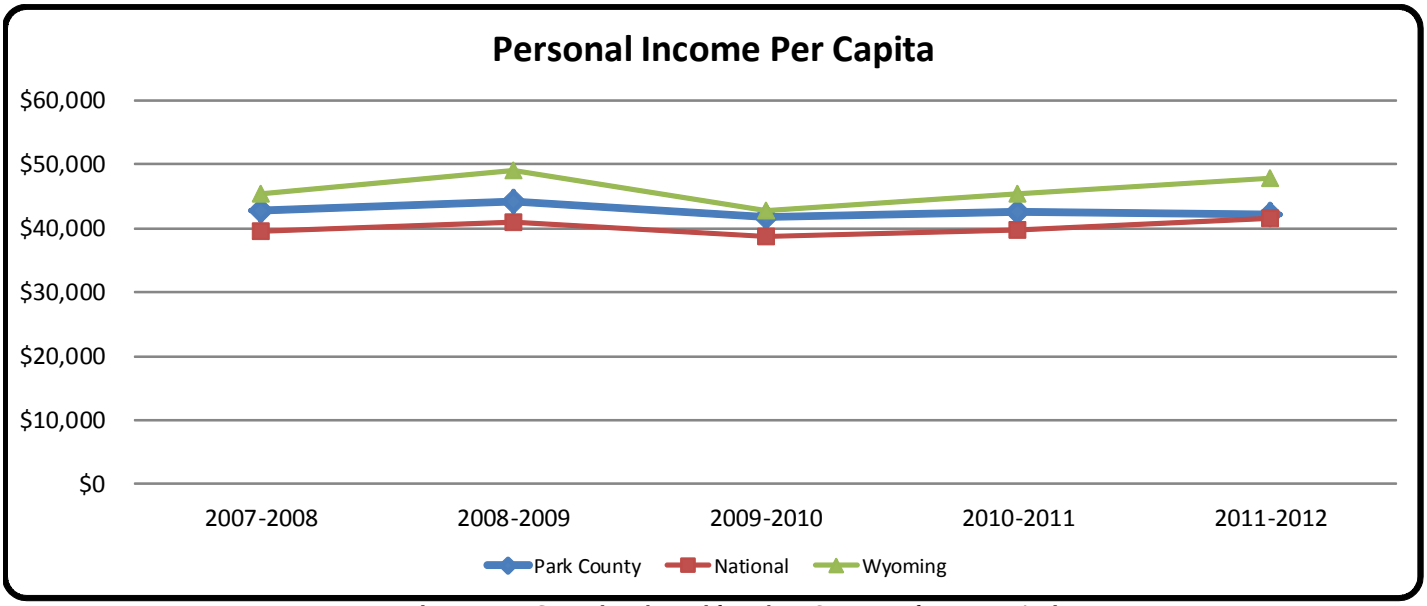
**Description:** Personal income per capita is a measure of a community's spending ability. Generally, the higher the personal income per capita the more sales tax a community can generate. A decline in per capita income results in loss of consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of a city's economy. Credit rating firms use per capita income as an important measure of a city's ability to meet its financial obligations.

**Warning Trend:** Decline in the level or growth rate of personal income per capita

**Condition:** Neutral

**Analysis:** Personal income per capita data was not available specifically for the City of Cody so the data in the following chart represents Park County as a whole. In FY09-10 personal income per capita dropped nearly 5.5% from the previous year and as of FY11-12 was 2% behind FY07-08 levels. Although the trend is slowly improving in the two years since, personal income per capita is still below FY07-08 levels.

Compared to the national and state personal income per capita, Park County is in the middle, being slightly higher than the national and slightly lower than the state.




Personal Income per Capita data obtained from the U.S. Bureau of Economic Analysis

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Park County (in constant dollars) | $42,842 | $44,153 | $41,759 | $42,569 | $42,096 |
| % Change in Income per Capita | | 3.06% | -5.42% | 1.94% | -1.11% |
| | | | | | |
| National | $39,502 | $40,947 | $38,637 | $39,791 | $41,560 |
| Wyoming | $45,281 | $49,104 | $42,828 | $45,353 | $47,898 |

# Employment Base

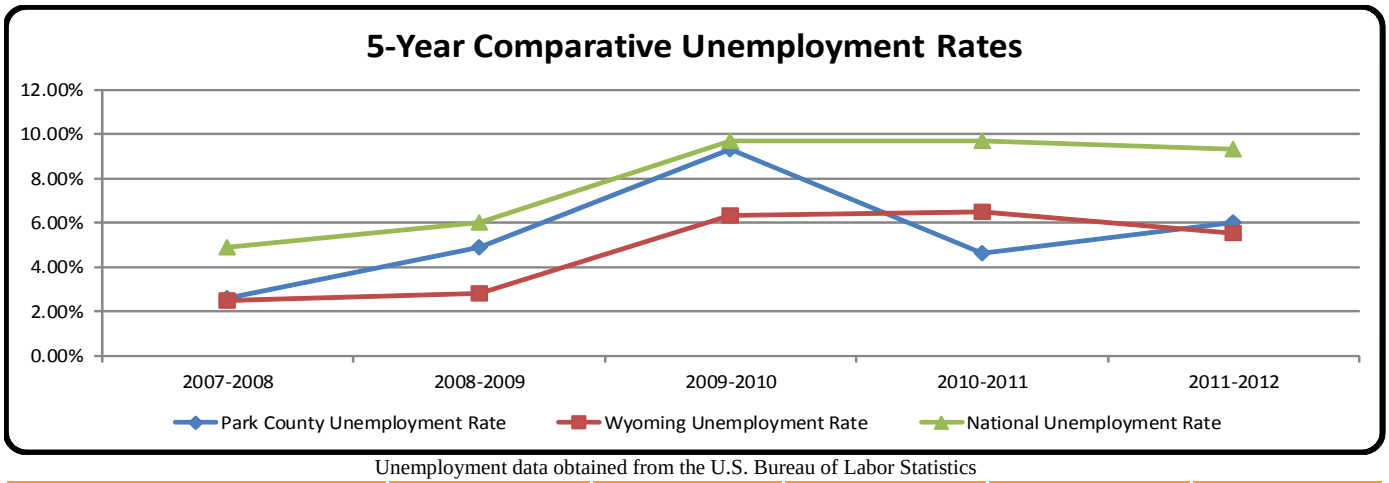
**Description:** A growing employment base will help to provide a cushion against economic downturn in individual business categories. A decline in the employment base can indicate the early signs of an overall decline in economic activity and a decline in government revenues as well. Unemployment rates are a traditional indicator of the relative economic health of a community. Consumers who lose their jobs curtail spending in response to the loss of income while others who remain employed may also curtail spending in anticipation of future job losses. As a result, even small increases in unemployment can have a major impact on tax-dependent revenue sources.

**Warning Trend:** Increasing rate of local

**Condition:** Caution

**Analysis:** Unemployment rates were not available specifically for the City of Cody so the data in the following chart represents Park County as a whole. Again, FY09-10 shows the impact of the recession with unemployment rates in Park County increasing 6.7% between FY07-08 and FY09-10. Unemployment rates improved slightly in both FY10-11 and FY11-12 and the overall change in unemployment rates over the five year period reflects a 3.4% increase in unemployment.

Compared to the State and National unemployment rates, Park County's unemployment rate has been in about the middle over the 5-year period analyzed. In FY09-10 the Park County rates were within 0.4% of the National rate.




Unemployment data obtained from the U.S. Bureau of Labor Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Park County | 2.6% | 4.9% | 9.3% | 4.6% | 6.0% |
| % Change in Unemployment Rates | | 2.3% | 4.4% | -4.7% | 1.4% |
| | | | | | |
| Wyoming | 2.5% | 2.8% | 6.3% | 6.5% | 5.5% |
| National | 4.9% | 6.0% | 9.7% | 9.7% | 9.3% |

# REVENUE INDICATORS

Revenues determine a city's capacity to provide services. Important issues to consider relative to revenues are growth, diversity, reliability, flexibility and administration. Under ideal conditions revenues will grow at a rate equal to or greater than the combined effects of inflation and expenditure pressures from new and/or expanded services. They should be sufficiently flexible to allow necessary adjustments in response to changing conditions. They should be diversified in their resources so as not to be overly dependent on residential, commercial or industrial land uses or on external funding sources such as federal grants or discretionary state aid. User fees should be regularly evaluated and revised to cover the true cost of providing services. Analyzing a revenue structure will aid in identifying the following types of problems:

- Deterioration in revenue base
- Internal procedures or priorities that may adversely affect revenue
- Over-dependence on obsolete or external revenue sources
- User fees that are not covering the cost of providing services
- Changes in tax burden
- Inefficiency in collection or administration of revenue

The following Revenue Indicators have been chosen for this report:

1. Operating Revenues per Capita
2. Intergovernmental Revenue as a Percent of Operating Revenue
3. Property Tax Revenue
4. Sales & Use Tax Revenue per Capita
5. Operating Transfers as a Percent of Operating Revenue

# Operating Revenue per Capita

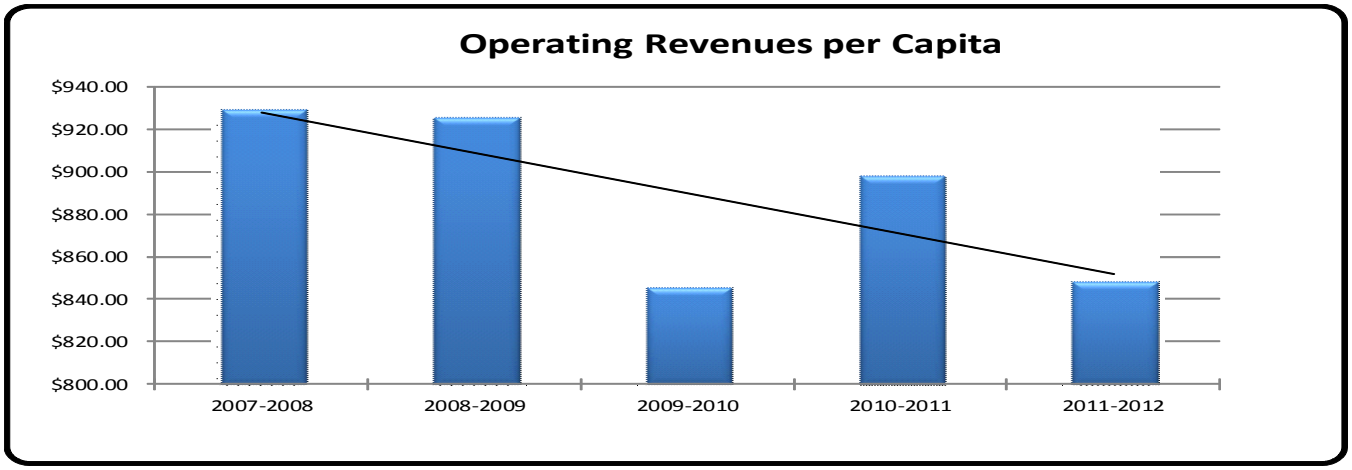
**Description:** As a city's population grows, it is anticipated that the needs for services will increase in a direct relationship. Therefore, the level of revenues per capita should at least remain constant and at a minimum, equal to operating expenditures per capita. If operating revenues per capita decrease or become lower than operating expenditures per capita, it may hamper a city's ability to maintain the existing level of services unless new sources of revenues or ways of trimming expenses can be found.

**Warning Trend:** Decreasing net operating revenues per capita

**Condition:** Critical

**Analysis:** The net operating revenue per capita has been on a declining trend over the 5-year period analyzed. There was an increase in FY10-11 which is mainly due to increased franchise fees on City utilities. In previous years the franchise fee charged had been set at 2% for all City-owned utilities, however In FY10-11 it was increased to 5% to be more consistent with the fees charged to outside utility providers. In FY11-12, the franchise fee rate for Electric was reduced to 3% resulting in a significant decrease franchise fee revenue. This change, in conjunction with declines in other revenue sources, resulted in a 5.5% drop in operating revenues per capita between FY10-11 and FY11-12.

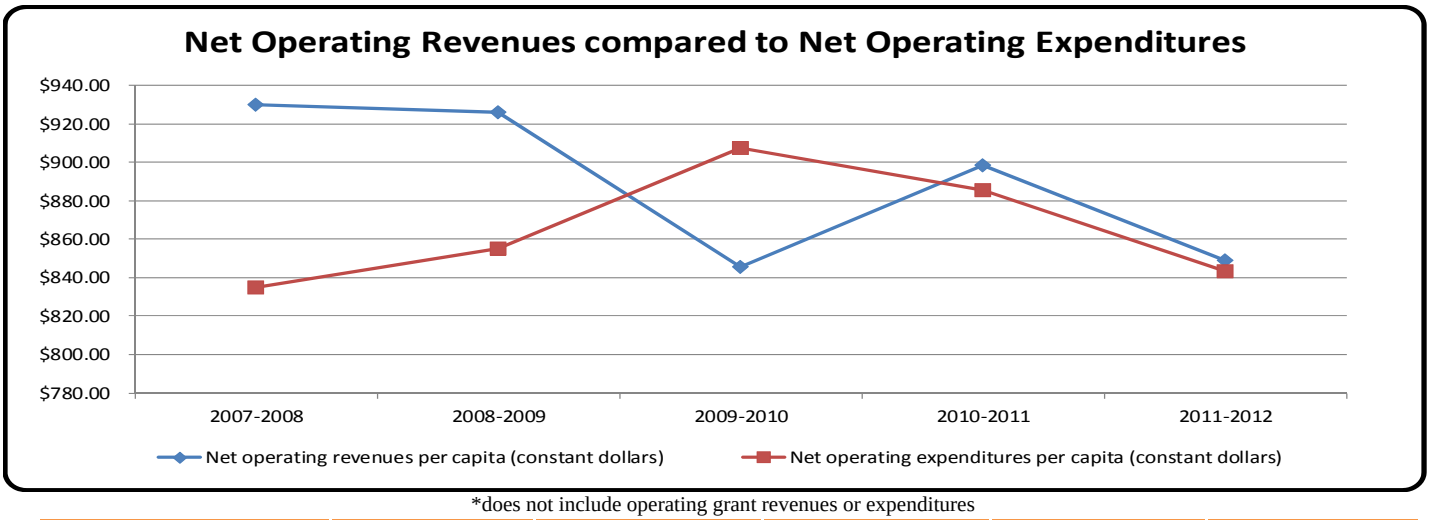
Not included in the net operating revenues are operating grants received from outside agencies. These revenue sources are not included because they constitute one-time or limited revenue streams that cannot be counted on for funding ongoing operations.




*does not include operating grant revenues Population data obtained from the U.S. Census Bureau and State of Wyoming Economic Analysis Division

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Net Operating Revenues (constant dollars)* | $8,565,944 | $8,646,590 | $8,052,678 | $8,573,080 | $8,192,984 |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| Net Operating Revenues per Capita (in constant dollars) | $929.87 | $926.25 | $845.87 | $898.55 | $848.75 |
| % Change in Net Operating Revenues per Capita | | -.039% | -8.68% | 6.23% | -5.54% |

Another aspect of this financial indicator is the relationship to operating expenditures per capita. A comparison of revenues vs. expenditures is the most basic measure of operating position. A city's financial well-being can be gauged by looking at how much money was spent as compared with the amount that was brought in. If more money is spent than is brought in then the city will have to make adjustments in order to maintain operations. If the expenditures are outpacing revenue too quickly than the city will have to cut costs, decrease the level of services provided or find new revenue sources. The level of fund balances allows for a cushion in times when revenues don't meet projections and if expenditures outpace revenue for long enough to bring fund balances down then the ability to pay short term liabilities will be diminished.




*does not include operating grant revenues or expenditures

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Net Operating Revenues per Capita (in constant dollars)* | $929.87 | $926.25 | $845.87 | $898.55 | $848.75 |
| Net Operating Expenditures per Capita (in constant dollars)* | $835.17 | $855.26 | $907.37 | $885.29 | $843.54 |
| Ratio of Revenues to Expenditures | 1.11 | 1.08 | .93 | 1.01 | 1.01 |

For most years the net operating revenues per capita were slightly higher than net operating expenditures at just over a 1- to-1 ratio, however in FY09-10 net operating expenditures were more than net operating revenues with a ratio of .93. It appears this was due to several factors including increased street maintenance, building and equipment repairs, and supplies during FY09-10. In FY10-11 and FY11-12 the net operating revenues and expenditures per capita fall back into sync and both show a declining trend. Significant cuts were made to operating expenditures and several vacant positions were not filled during these two years in order to balance the budgets.

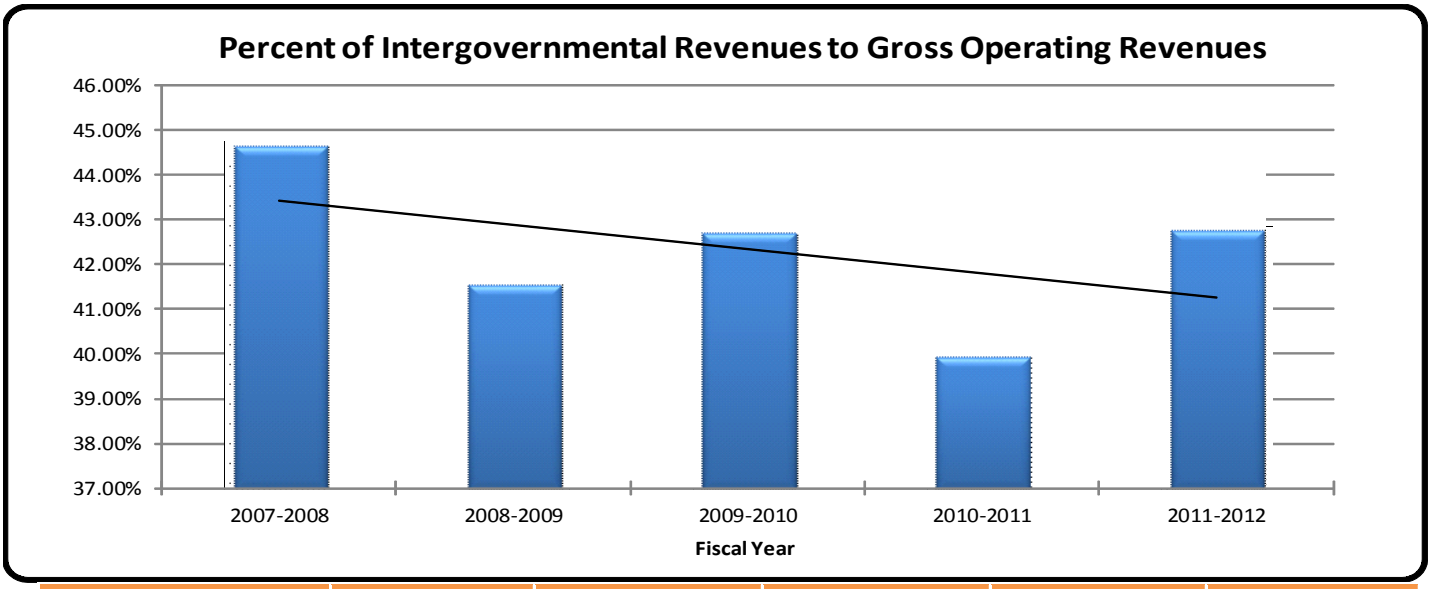
Although it is a good sign that a significant difference between net operating revenues and expenditures per capita does not exist, the decline of net operating revenues is still a concern. Net operating expenditures are declining along with net operating revenues due to temporary cuts. With continued reductions in maintenance levels the condition of the City's infrastructure will decline and repairs will be more expensive in the future. As the City's population increases the demand for services will increase and unless new revenue sources can be obtained or the City eliminates unnecessary services it is likely increases in the gap between net operating revenues and net operating expenditures will continue.

# Intergovernmental Revenue as a Percent of Operating Revenue

**Description:** Intergovernmental operating revenues are received from other governmental entities. An over-dependence on intergovernmental revenues can have an adverse impact on financial condition if there are restrictions or stipulations that the other governmental entities attach to the revenue. These revenues can also be volatile since they are often consumer-driven or subject to legislative appropriation. The overriding concern in analyzing intergovernmental revenues is to determine whether a city is controlling its use of the revenues or whether these revenues are controlling the City.

| **Warning Trend:** Increasing amount of intergovernmental operating revenue as a percentage of total operating revenue | **Condition** Caution |
|---|---|

**Analysis:** Intergovernmental revenue for the City of Cody makes up about 42% of the City's gross operating revenues on average. These sources include sales & use taxes, severance taxes, mineral royalty taxes, cigarette taxes, and gasoline taxes. With nearly half of the City's operating revenues derived from these sources the City is subject to the impact of fluctuations in consumer spending and other economic factors. Without a more diversified local revenue stream the City could face difficulty when intergovernmental sources decline, as we have seen over the past few years.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Intergovernmental Operating Revenues | $3,995,984 | $3,899,864 | $3,736,243 | $3,713,689 | $3,926,833 |
| Gross Operating Revenues | $8,945,414 | $9,383,328 | $8,746,118 | $9,295,092 | $9,180,054 |
| % of Intergovernmental Revenues to Operating Revenues | 44.67% | 41.56% | 42.72% | 39.95% | 42.78% |

# Property Tax Revenue

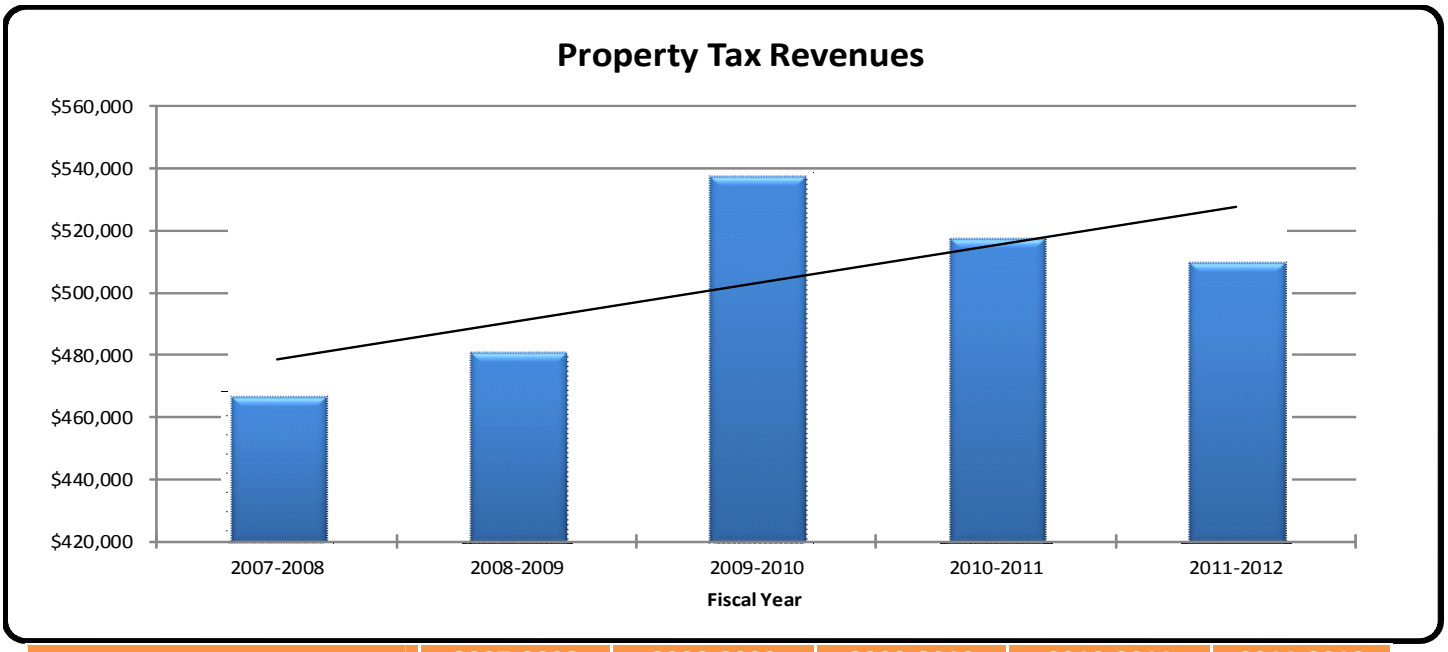
**Description:** Local property tax revenues are driven primarily by the value of residential and commercial property, with property tax bills determined by the local government's assessed mill levy on the value of property. Property tax collections lag the real estate market, because local assessment practices take time to catch up with changes. As a result, current property tax bills and property tax collections typically reflect values of property from twelve to eighteen months prior.

A decline or diminished growth rate in taxable value may result from a number of causes such as an overall decline in property values, the transfer of taxable property to organizations that are exempt, or a decline in new development.

**Warning Trend:** Declining or negative growth in property tax revenues

**Condition:** Caution

**Analysis:** The property tax received by the City is based on the assessed valuation, as provided by the Park County Assessor's Office and the mills set by the City Council. The City sets an annual levy at the maximum allowable rate of 8 mills, 3 of which go to the Fire District, leaving 5 mills of property tax coming to the City. The City's property tax revenues show an increasing trend between FY07-08 and FY09-10 then a decline in the following two years which is a reflection of the changes in the real estate market due to the recession.



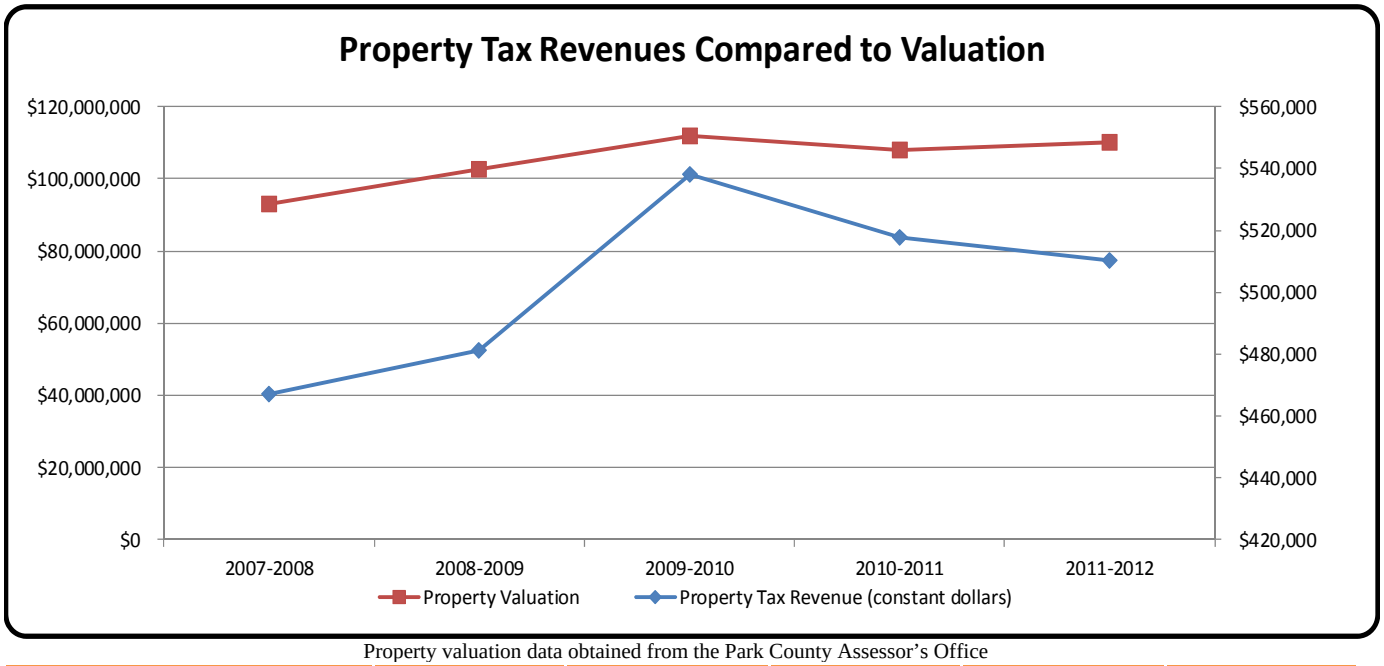

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Property Tax Revenues (constant dollars) | $467,150 | $481,432 | $538,055 | $517,956 | $510,309 |
| % Change in Property Tax Revenues | | 3.06% | 11.76% | -3.74% | -1.48% |

The City receives a very small portion of the total property tax assessed. The following chart shows an example of how an average homeowner's property taxes are divided amongst the entities in Park County:

| | | |
|---|---|---|
| **Average Home Value 2012** | **$** | **210,495** |
| **Assessment Rate** | | 9.5% |
| **Assessed Value** | $ | 19,997 |

| District | Mill Levy | Property Tax | % of Tax |
|---|---|---|---|
| School District #6 | 0.03100 | $ 619.91 | 40.79% |
| School Foundation Fund (State) | 0.01200 | $ 239.96 | 15.79% |
| Park County | 0.01200 | $ 239.96 | 15.79% |
| **City of Cody** | **0.00500** | **$ 99.99** | **6.58%** |
| Northwest College | 0.00500 | $ 99.99 | 6.58% |
| Cemetery District | 0.00300 | $ 59.99 | 3.95% |
| Fire District | 0.00300 | $ 59.99 | 3.95% |
| West Park Hospital | 0.00300 | $ 59.99 | 3.95% |
| Recreation District | 0.00100 | $ 20.00 | 1.32% |
| Weed & Pest District | 0.00100 | $ 20.00 | 1.32% |
| | **0.07600** | **$ 1,519.77** | **100%** |

Since property tax revenues are based on the valuation of properties the revenues have shown consistent fluctuations with the 5-year valuation trend.

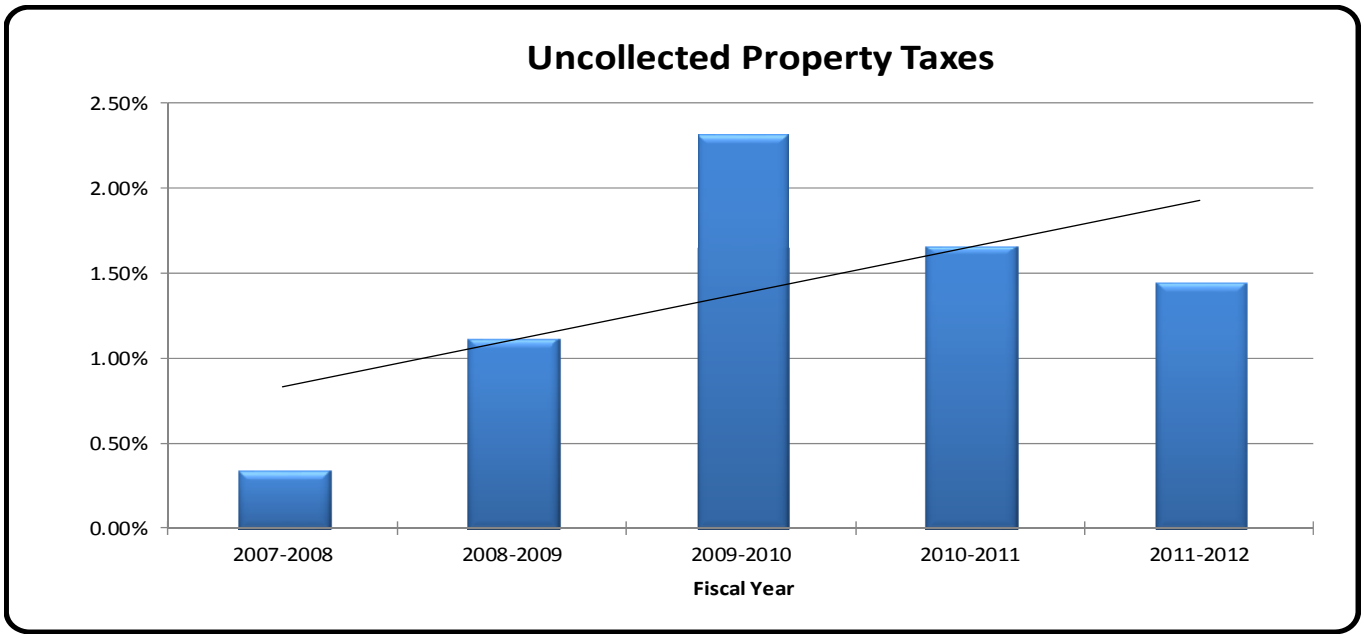



Property valuation data obtained from the Park County Assessor's Office

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| **Property Tax Revenues (constant dollars)** | $467,150 | $481,432 | $538,055 | $517,956 | $510,309 |
| **Valuation** | $93,136,164 | $102,516,675 | $111,766,898 | $107,877,754 | $110,081,642 |

Of the 5 mils received, the City typically collects 98%. The delinquency rate is low due to the County's annual tax sale which recoups a majority of the unpaid property taxes. The delinquent tax rate compared to property tax assessments for the past 5 years is shown in the chart below. Credit rating agencies assume that local governments typically do not collect from two to three percent of its property taxes within the year the taxes are due. If current year uncollected property taxes rise to more than five percent, credit rating agencies consider this a negative factor because it signals potential problems in the stability of the tax base. The City of Cody's

indicator was 1.45% for FY11-12. Prior years' indicators range from less than 1% up to 2.3% which are well within the expected range based on credit rating agency standards. FY09-10 shows the highest delinquency rate at 2.33% which can also be attributed to the effects of the recession.




Uncollected property tax data obtained from the Park County Assessor's Office

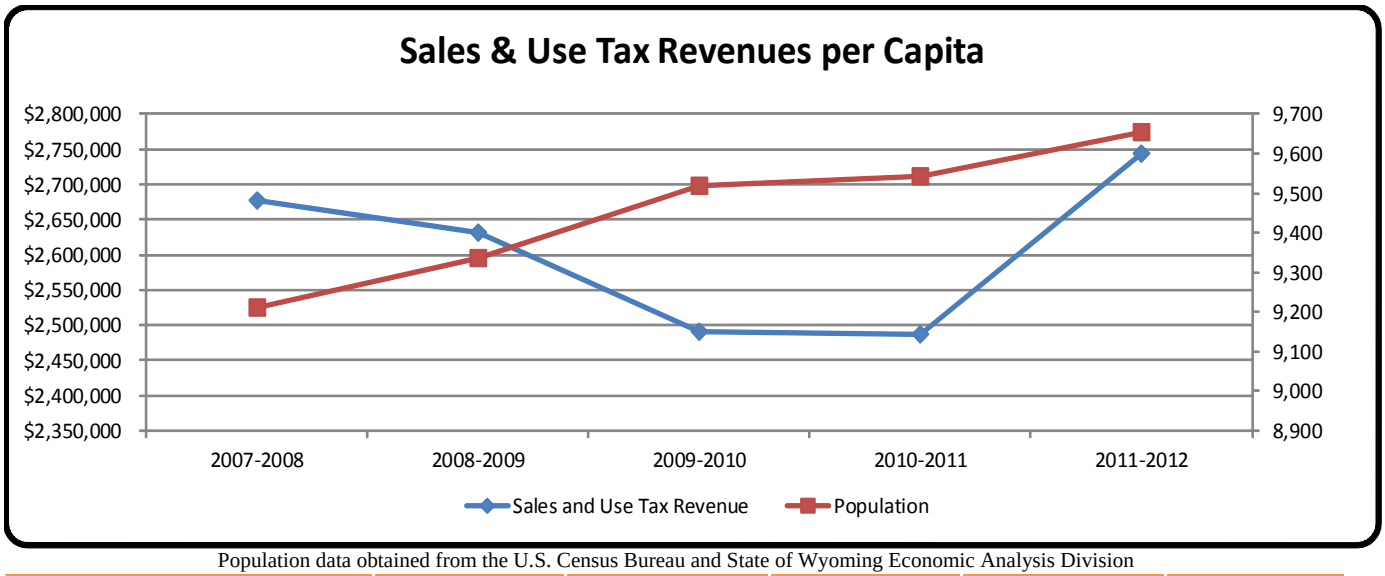
| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Property Tax Levy | $465,681 | $512,583 | $558,834 | $539,389 | $550,408 |
| Uncollected Property Taxes | $1,600 | $5,738 | $13,018 | $8,984 | $7,956 |
| % of Uncollected Taxes Compared to Levy | 0.34% | 1.12% | 2.33% | 1.67% | 1.45% |

# Sales & Use Tax Revenue per Capita

**Description:** Changes in economic conditions are also evident in terms of changes in sales tax collections. When consumer confidence is high, people spend more on goods and services, and city governments benefit through increases in sales tax collections. Prior to the recession, consumer spending was also fueled by a strong real estate market that provided additional wealth to homeowners. The struggling economy and the declining real estate market have reduced consumer confidence, resulting in less consumer spending and declining sales tax revenues.

| **Warning Trend:** Declining or negative growth in sales & use tax revenues | **Condition** Caution |
|---|---|

**Analysis:** Sales & use taxes are a significant General Fund revenue source and makes up approximately 30% of the City's gross operating revenues. The sales tax revenue per capita has shown a declining trend over the 5-year period analyzed however in FY11-12 the trend rebounded showing an increase over the prior year of 6%. Although it appears the trend is improving sales & use tax revenue per capita is nearly 10% less than FY07-08.

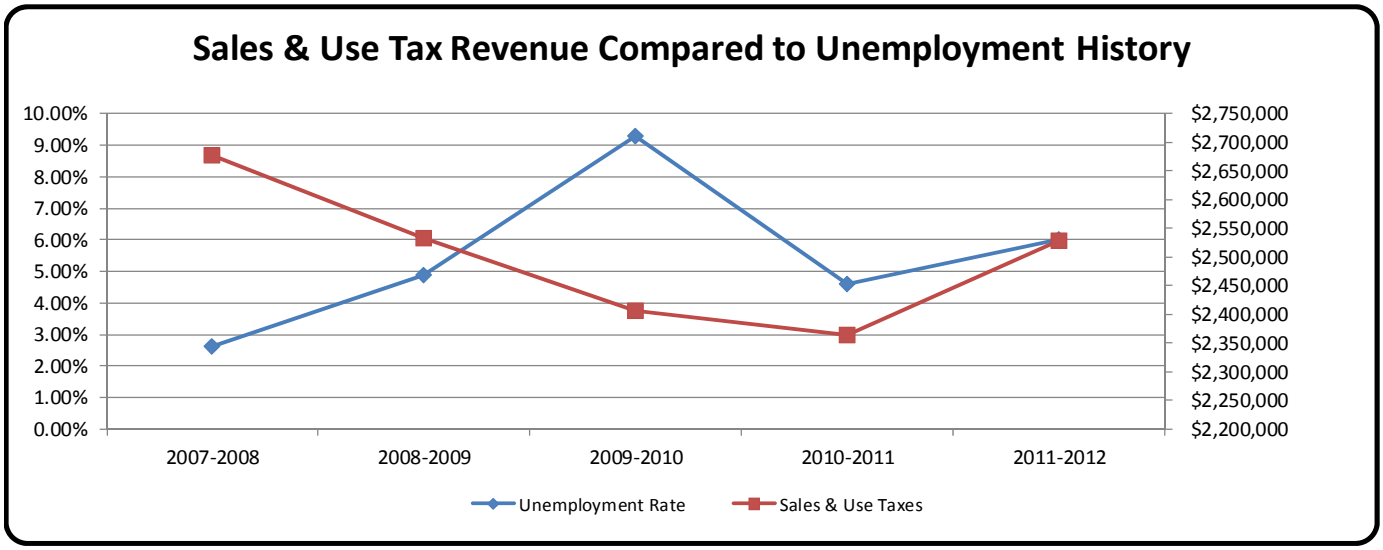



Population data obtained from the U.S. Census Bureau and State of Wyoming Economic Analysis Division

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Sales & Use Tax Revenue (constant dollars) | $2,677,230 | $2,533,535 | $2,406,857 | $2,364,442 | $2,529,322 |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| Sales & Use Tax per Capita (constant dollars) | $290.62 | $271.40 | $252.82 | $247.82 | $262.02 |
| % Change in Sales & Use Tax per Capita | | -6.61% | -6.85% | -1.98% | 5.73% |

Sales tax is also affected by the overall labor market conditions. If consumers have uncertainty in their employment they are likely to reduce their spending. Although the City receives a portion of the sales tax from tourists, economic conditions in the areas from which the tourist come can also impact sales taxes received by the City.

A trend can be seen in comparing the sales & use tax revenue to the unemployment rates in Park County. As the following chart shows, when the unemployment rate was low, sales & use tax revenues were up. As the unemployment rate increased consumer spending decreased and subsequently resulted in a decline in revenue received. In FY11-12 the unemployment rate was still about 6% however the sales & use taxes show an upward trend indicating that consumer confidence was improving slightly.




Unemployment rate obtained from the U.S. Bureau of Labor Statistics

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Sales & Use Tax Revenue (constant dollars) | $2,677,230 | $2,533,535 | $2,406,857 | $2,364,442 | $2,529,322 |
| Unemployment Rate | 2.60% | 4.90% | 9.30% | 4.60% | 6.00% |

# Operating Transfers as a Percent of Total Operating Revenue

**Description:** Operating Transfers are received from other internal funds to partially offset expenditures in the General Fund. While there is some concern about too heavy of a reliance on operating transfers as a revenue source, it can be argued that the sources and basis of operating transfers for various cities is more relevant than the amounts.

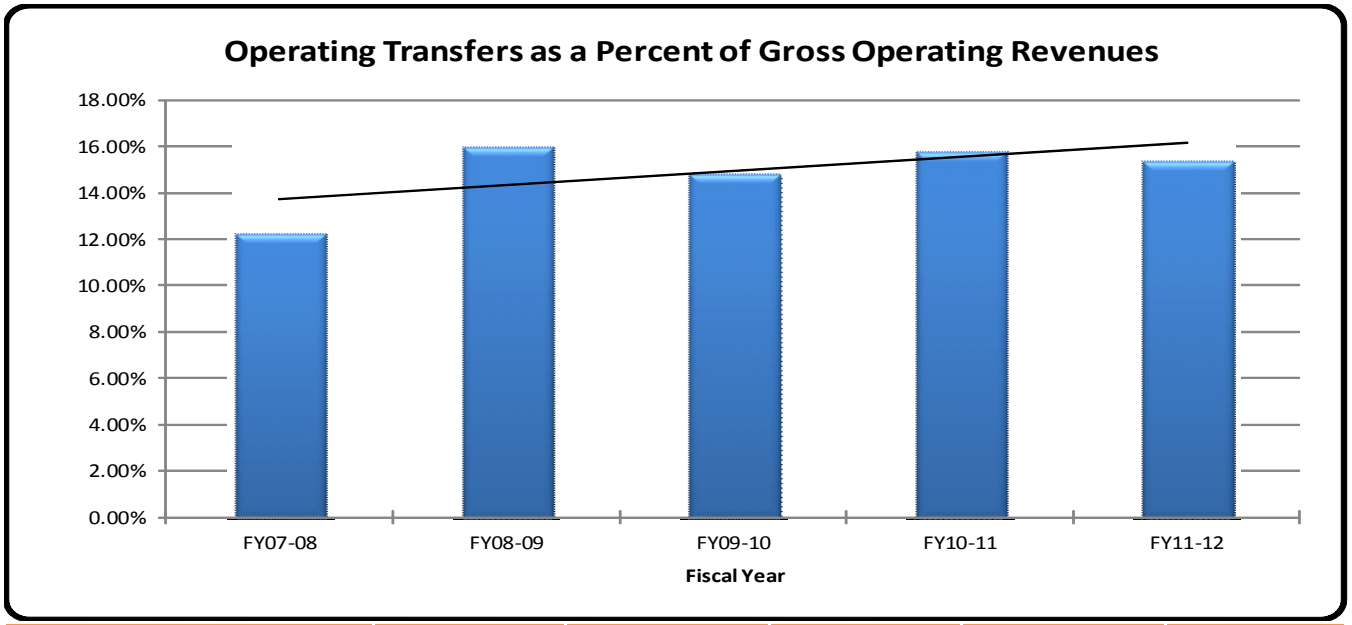
**Warning Trend:** High ratio of operating transfers to gross operating revenues

**Condition:** Neutral

**Analysis:** Money is transferred from the Enterprise Funds to the General Fund each year to offset the cost of services provided by the General Fund to the Enterprise Funds. These costs include wages & benefits, materials & supplies, utilities, insurance, etc. A cost of service analysis is prepared each year in conjunction with the budget to determine the amount of the Enterprise Funds transfers.

These transfers make up an average of 15% of the General Fund's annual total gross operating revenues. This is comparable to the average percentage of Local Taxes (17%) and Charges for Services (13%).

While the ratio is not high compared to other operating revenue sources it does show a dependence on this source and that without the operating transfers the General Fund would have a significant annual operating deficit. There is also an increasing trend in the ratio which indicates more reliance on the operating transfers as other revenue sources decline.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Operating Transfers | $1,102,078 | $1,505,881 | $1,304,153 | $1,473,749 | $1,419,560 |
| Gross Operating Revenues | $8,945,414 | $9,383,328 | $8,746,118 | $9,295,092 | $9,180,054 |
| % of Operating Transfers of Gross Operating Revenues | 12.32% | 16.05% | 14.91% | 15.86% | 15.46% |

# EXPENDITURE INDICATORS

Expenditures are a rough measure of a city's output effort. Generally, the more a city spends, the more service it is providing or it is providing higher quality service however increased expenditures can also be a sign of problems in ineffective budget control or excessive growth, decline in personnel productivity and growth in services not supported by revenues.

Most cities are required to have balanced budgets; however, there are a number of subtle ways to balance an annual budget yet create long-term imbalances. Some of the more common ways are to use bond proceeds for operations, defer maintenance, or utilize temporary cuts from year-to-year. In each case, the budget remains balanced, but in the long-term significant deficits could be developing.

Ideally, a city will have an expenditure growth rate that does not exceed its revenue growth rate and will have maximum spending flexibility to adjust to changing factors. A review of city expenditures can identify deficiencies should they exist such as:

- Excessive growth of overall expenditures as compared to revenue growth
- An undesired increase in fixed costs
- Ineffective budget controls & models
- Excessive growth in programs that create future expenditure liabilities

The following Expenditure Indicators have been chosen for this report:

1. Operating Expenditures per Capita
2. Employees per Capita
3. Employee Wages & Benefits
4. Maintenance Efforts
5. Capital Outlay

# Operating Expenditures per Capita

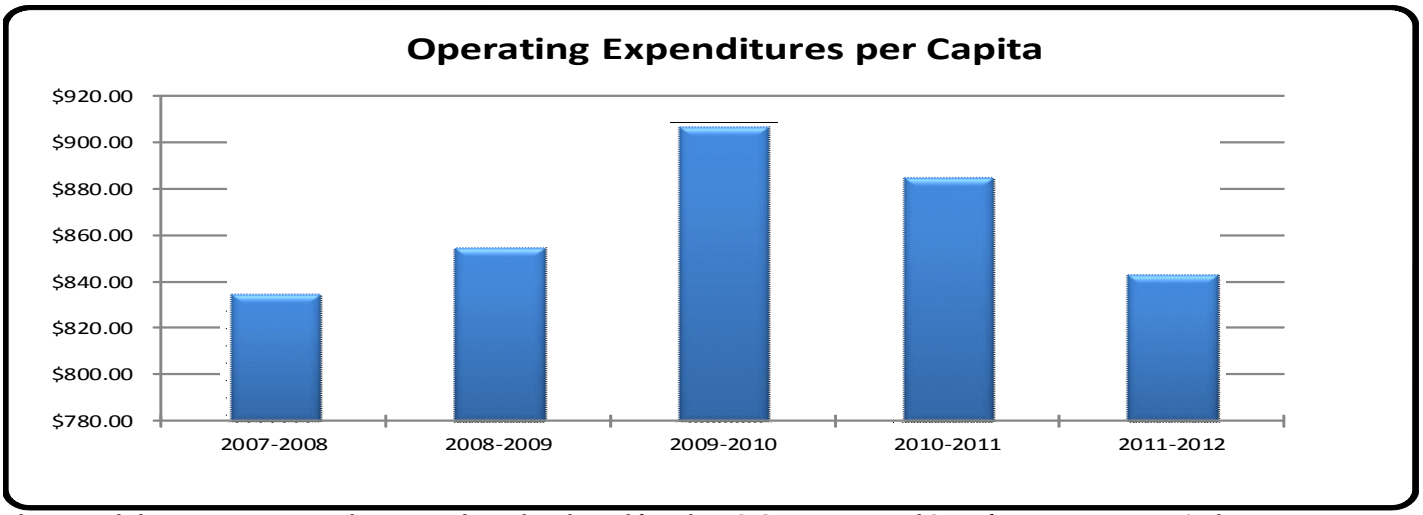
**Description:** Operating expenditures per capita reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is increasing at a pace beyond the community's ability to pay. If spending is increasing faster than can be accounted for by inflation or new programs, it may indicate that a city is spending more funds to support the same level of services or the methods of providing the services are inefficient.

**Warning Trend:** Increasing operating expenditures per capita

**Condition:** Critical

**Analysis:** For the 5-year period shown, net operating expenditures increased between FY07-08 and FY09-10 by about 12% however there was a decreasing trend in both of the following years resulting in an overall increase of about 5% over the 5-year period. On the surface the decrease over the last two years appears to be a positive trend however, the reduction in operating expenditures per capita is misleading.

In the General Fund, there are not sufficient revenue sources or growth in these sources to cover all the operating, capital and other expenditures each year so the City has frequently used several techniques to balance the budget. These include deferring maintenance, making temporary cuts from year to year, and utilizing unrestricted cash reserves. In each case, the budget remains balanced but the City is only succeeding in developing deficits which affect future budgets and long-term sustainability.




*does not include operating grant expenditures. Population data obtained from the U.S. Census Bureau and State of Wyoming Economic Analysis Division

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Net Operating Expenditures (constant dollars)* | $7,693,619 | $7,983,841 | $8,638,165 | $8,446,535 | $8,142,647 |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| Net Operating Expenditures per Capita (in constant dollars) | $835.17 | $855.26 | $907.37 | $885.29 | $843.54 |
| % Change | | 2.40% | 6.09% | -2.43% | -4.72% |

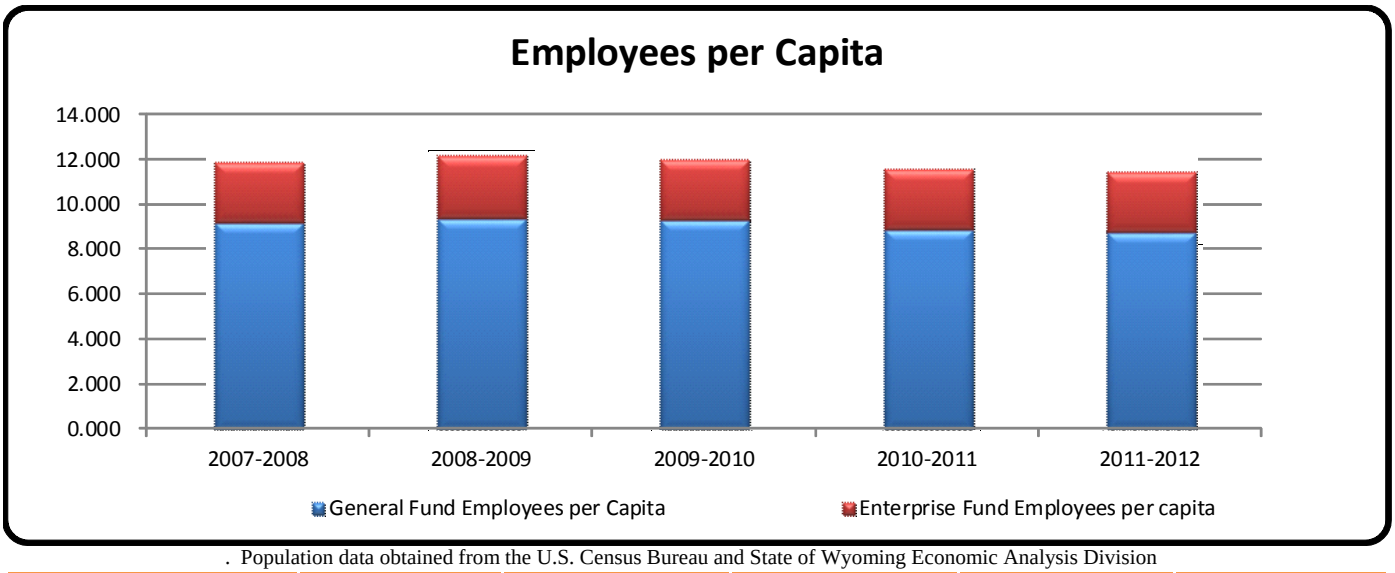
# Employees per Capita

**Description:** Because personnel costs are a major portion of operating expenditures, plotting changes in the number of employees per capita is another way to measure changes in expenditures. A substantial increase in employees per capita might indicate that expenditures are rising faster than revenues that a city is becoming more labor intensive, services are expanding, or personnel productivity is declining. An increase in employees per capita is not negative if a direct correlation can made to increased services.

**Warning Trend:** Increasing number of employees per capita

**Condition:** Positive

**Analysis:** The City has maintained a consistent level of employees per capita with no large increases in staffing levels. Although the population served has increased over the 5-year period the number of municipal employees per capita has decreased with no reduction in services provided. The increase in employees between FY07-08 and FY09-10 occurred in Administrative Services and Police however the number of employees decreased by 4 since FY09-10. As of FY11-12 the City had the same number of employees as it did in FY07-08 serving a population which increased by approximately 400. This indicator includes both General Fund and Enterprise Fund employee numbers.




. Population data obtained from the U.S. Census Bureau and State of Wyoming Economic Analysis Division

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| General Fund Employees | 85 | 88 | 89 | 85 | 85 |
| Enterprise Fund Employees | 25 | 26 | 26 | 26 | 26 |
| Total Employees | 110 | 114 | 115 | 111 | 111 |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| Employees per Capita (per thousand) | 11.94 | 12.21 | 12.08 | 11.63 | 11.50 |
| % Change in Employees per Capita | | 2.27% | -1.08% | -3.72 | -1.11 |

# Employee Wages and Benefits

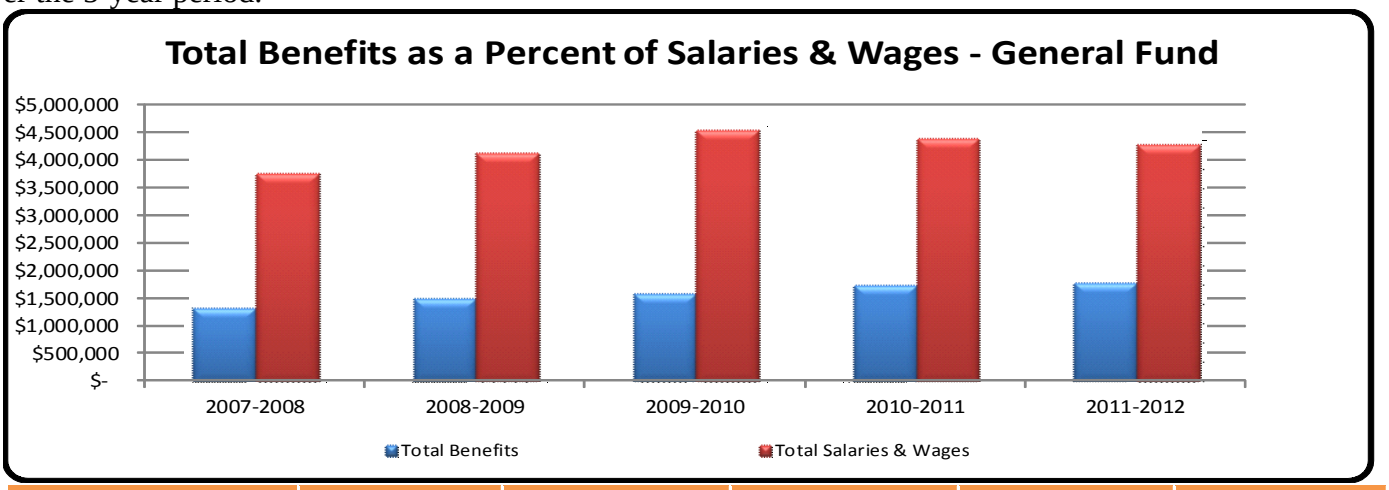
**Description:** Employee wages and benefits can represent a significant cost to a city. Some benefits are mandated such as FICA, workers compensation and unemployment. Others, such as health insurance and retirement are discretionary.

**Warning Trend:** Increasing benefits as a percent of salaries & wages or increasing wages & benefits as a percent of operating expenditures

**Condition:** Caution

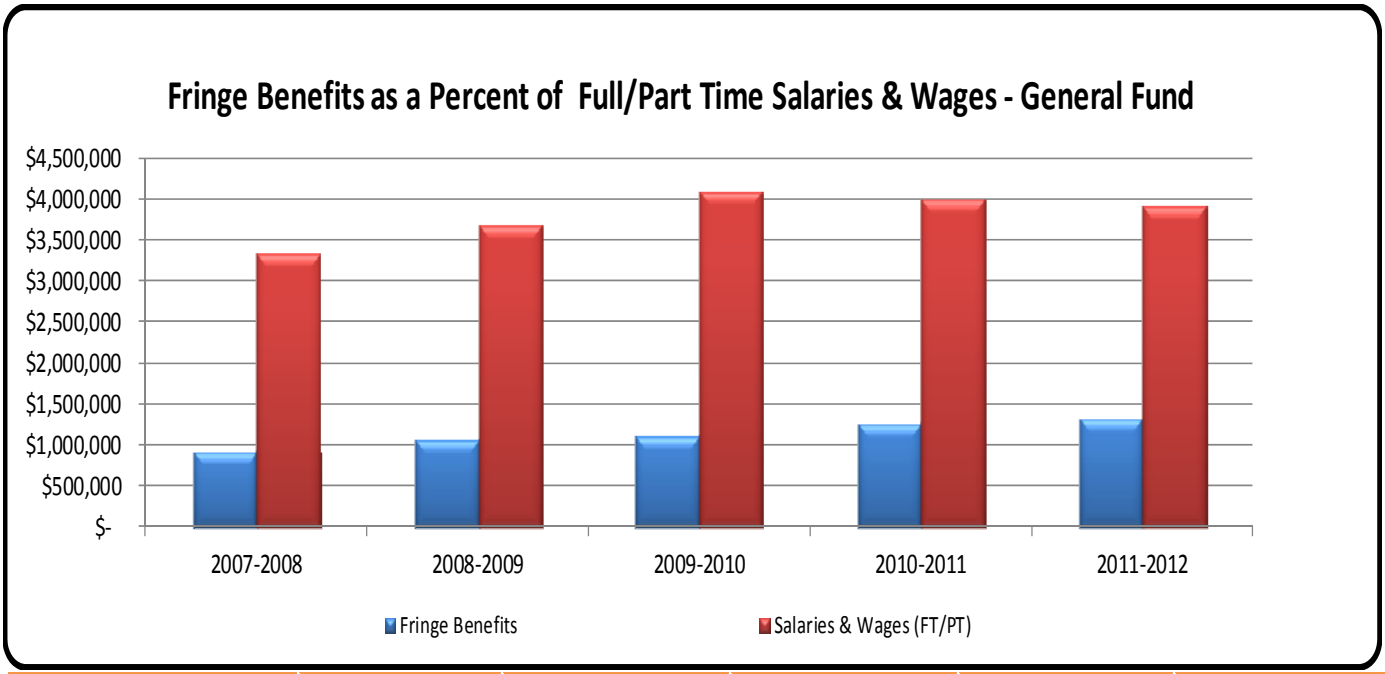
**Analysis:** The City of Cody offers both mandated and non-mandated benefits to employees. Mandated benefits include workers compensation, unemployment, and FICA taxes. Non-mandated benefits are health insurance, retirement, long term disability and vehicle allowances.

Total General Fund benefits as a percent of salaries and wages have ranged from a low of 34.90% to a high of 41.91%, with FY11-12 being the highest at 41.91%. The salaries and wages figure used in this indicator covers all General Fund salaries and wages including seasonal employees who are not eligible for some of the benefits listed in this indicator, such as insurance and retirement. The City is susceptible to changes in these types of benefits as they are set by other agencies. Although FICA rates have not changed for several years, worker's compensation rates are adjusted up or down each year based on the City's accident experience. The City is also considered a reimbursable employer for unemployment and therefore pays actual cost on unemployment claims rather than a set premium. The average cost of total benefits per employee has increased approximately 3% over the 5-year period.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| General Fund Total Benefits | $1,340,813 | $1,515,996 | $1,591,715 | $1,746,093 | $1,801,699 |
| General Fund Salaries & Wages | $3,780,387 | $4,160,023 | $4,561,207 | $4,423,337 | $4,299,202 |
| % of Benefits to Salaries & Wages | 35.47% | 36.44% | 34.90% | 39.47% | 41.91% |
| % Change | | 0.97% | -1.55% | 4.58% | 2.43% |
| | | | | | |
| General Fund Employees | 85 | 88 | 89 | 85 | 85 |
| Average Cost of Benefits per Employee | $15,774 | $17,227 | $17,884 | $20,542 | $21,196 |

The non-mandated (fringe) benefits include health insurance, retirement, long term disability, and vehicle allowance (for department head level only). The following chart shows the non-mandated benefits compared to eligible employee salaries & wages (does not include seasonal employees):

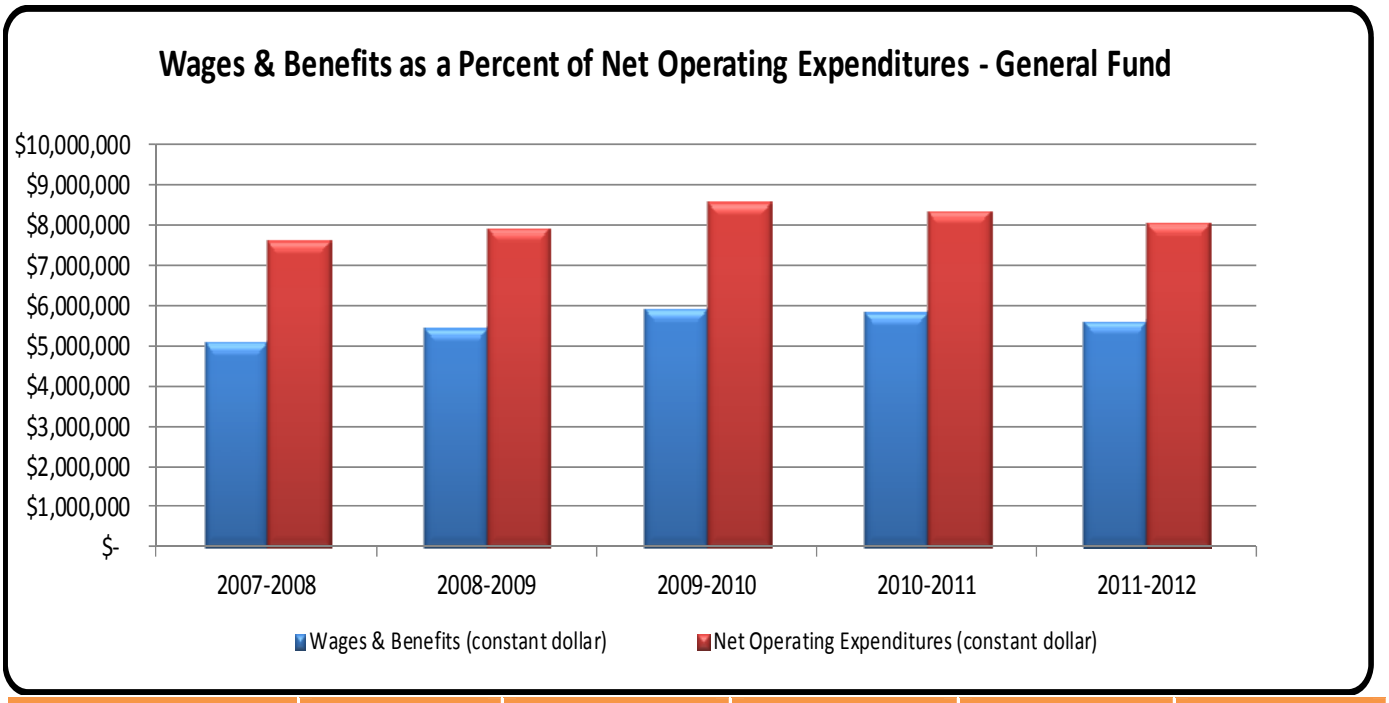



| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| General Fund Non-Mandated (Fringe) Benefits | $947,554 | $1,075,797 | $1,116,729 | $1,265,717 | $1,340,548 |
| General Fund Salaries & Wages Full/Part Time Employees | $3,356,691 | $3,717,398 | $4,119,964 | $4,012,019 | $3,931,257 |
| % Fringe Benefits to Salaries & Wages | 28.23% | 28.94% | 27.11% | 31.55% | 34.10% |
| % Change in Fringe Benefits to Salaries & Wages | | 0.71% | -1.83% | 4.44% | 2.55% |
| | | | | | |
| General Fund # of Employees | 85 | 88 | 89 | 85 | 85 |
| Average Cost of Fringe Benefits per Employee | $11,147 | $12,224 | $12,547 | $14,899 | $15,771 |

The City is also susceptible to changes set by outside agencies for fringe benefits. Health insurance premiums are set by WAM-JPIC, retirement premiums are set by Wyoming Retirement System and the long term disability rates are set by UNUM. The City has had a good experience the past few years with health insurance rates and has not seen a significant increase for several years. Retirement rates changed in September 2010 and the City's contribution increased by 1.44% for regular employees (police employees were not affected by the change). The City's health insurance premiums are also affected by the different levels of coverage available. The City pays 100% of the premium for each employee enrolled and 90% of the employee's dependent coverage. When employees change to a higher level of coverage the amount paid by the City toward the premium increases. Another factor influencing the cost of benefits is increases in pay rates. FICA, Workers

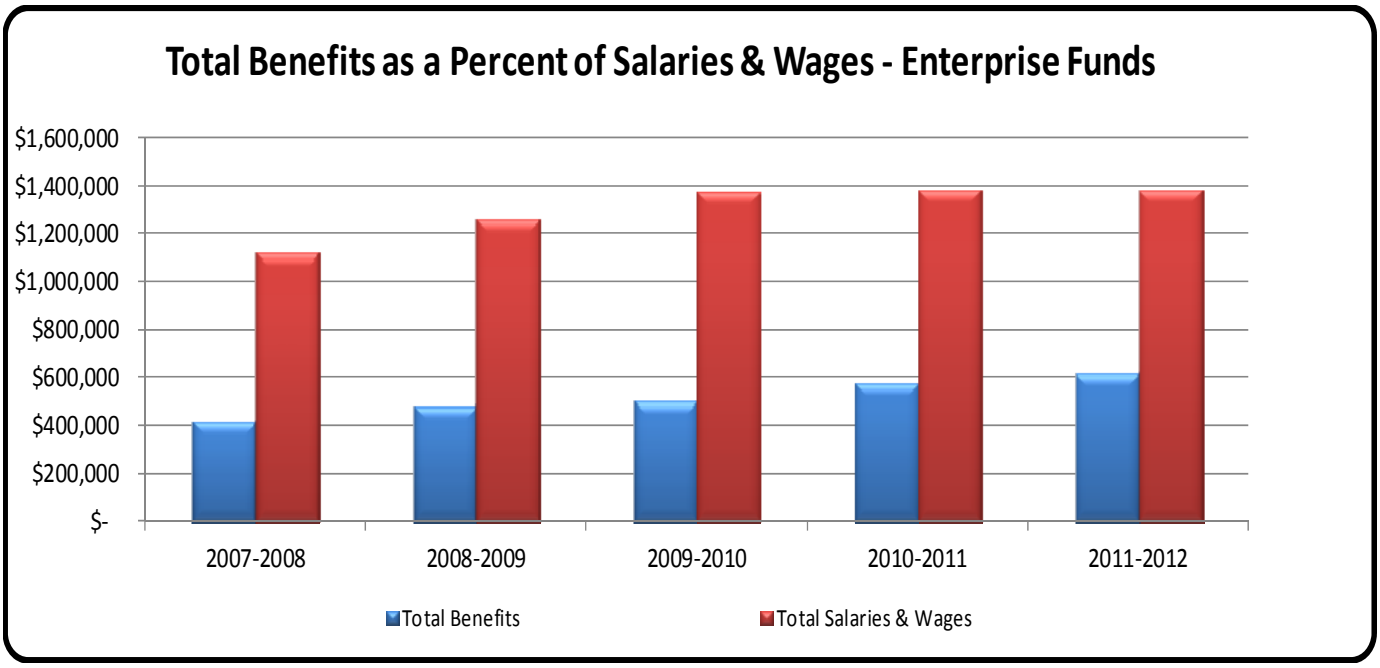
Compensation, and Retirement are all based on a percentage of employee wages therefore when there is an adjustment to the pay scale or employees qualify for merit increases the cost of these benefits also increases. The average fringe benefits cost per employee has increased approximately 4% over the 5-year period.

In General Fund operations it is not uncommon for the ratio of wages & benefits compared to Net Operating Expenditures to be high. The bulk of the services provide by the City are supported in the General Fund. The City's wages and benefits as a percentage of operating expenditures has been just under 70% over the 5-year period analyzed. Although the percentage has increased slightly (2.52%) between FY07-08 and FY11-12 there has been no significant or sudden increases during this time. Much of the increase has been due to the many cuts in other areas of operations such as materials & supplies and maintenance while staffing levels have not been as significantly affected.



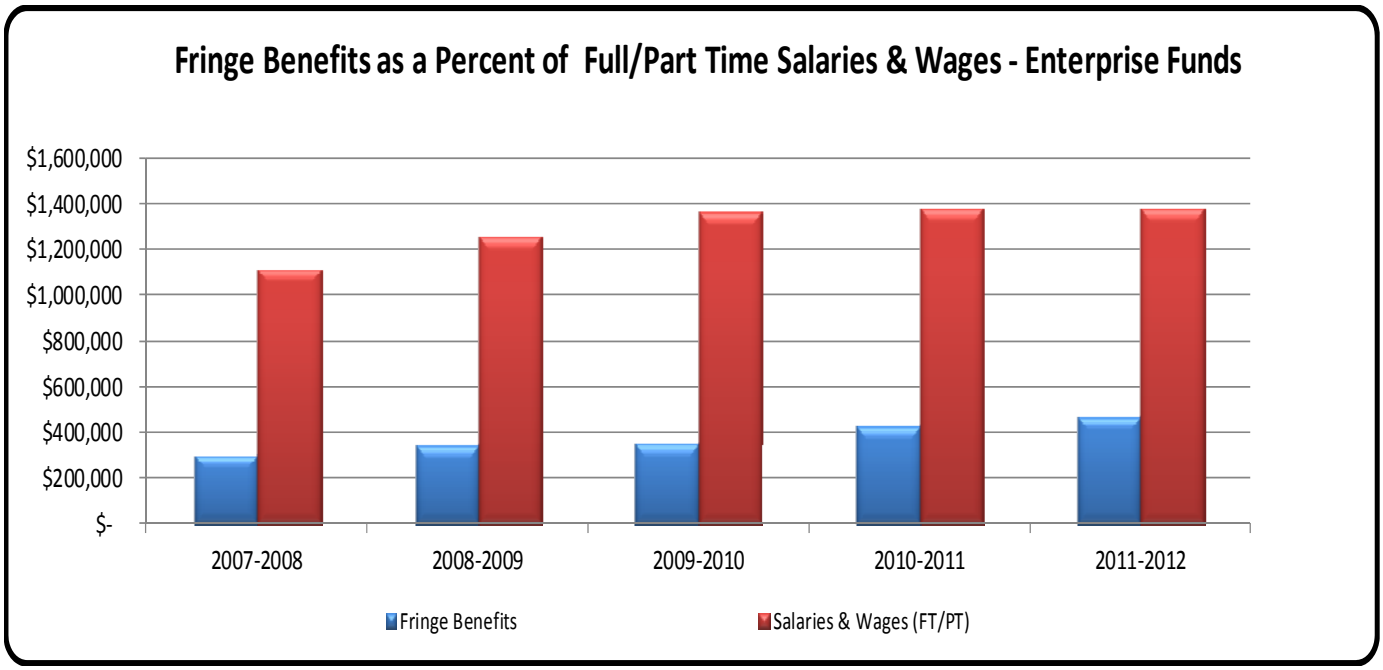

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| General Fund Wages & Benefits (constant dollar) | $5,121,200 | $5,466,006 | $5,943,723 | $5,867,128 | $5,625,030 |
| General Fund Net Operating Expenditures (constant dollar) | $7,693,619 | $7,983,841 | $8,638,165 | $8,446,535 | $8,142,647 |
| % of Personnel Costs to Net Operating Expenditures | 66.56% | 68.46% | 68.81% | 69.46% | 69.08% |
| % Change in Personnel Costs to Net Operating Expenditures | | 1.90% | 0.34% | 0.65% | -0.38% |

In making the same analyses with the Enterprise Fund wages and benefits data we can see that the percent of benefits to wages and salaries is only slightly higher than the ratio in the General Fund.



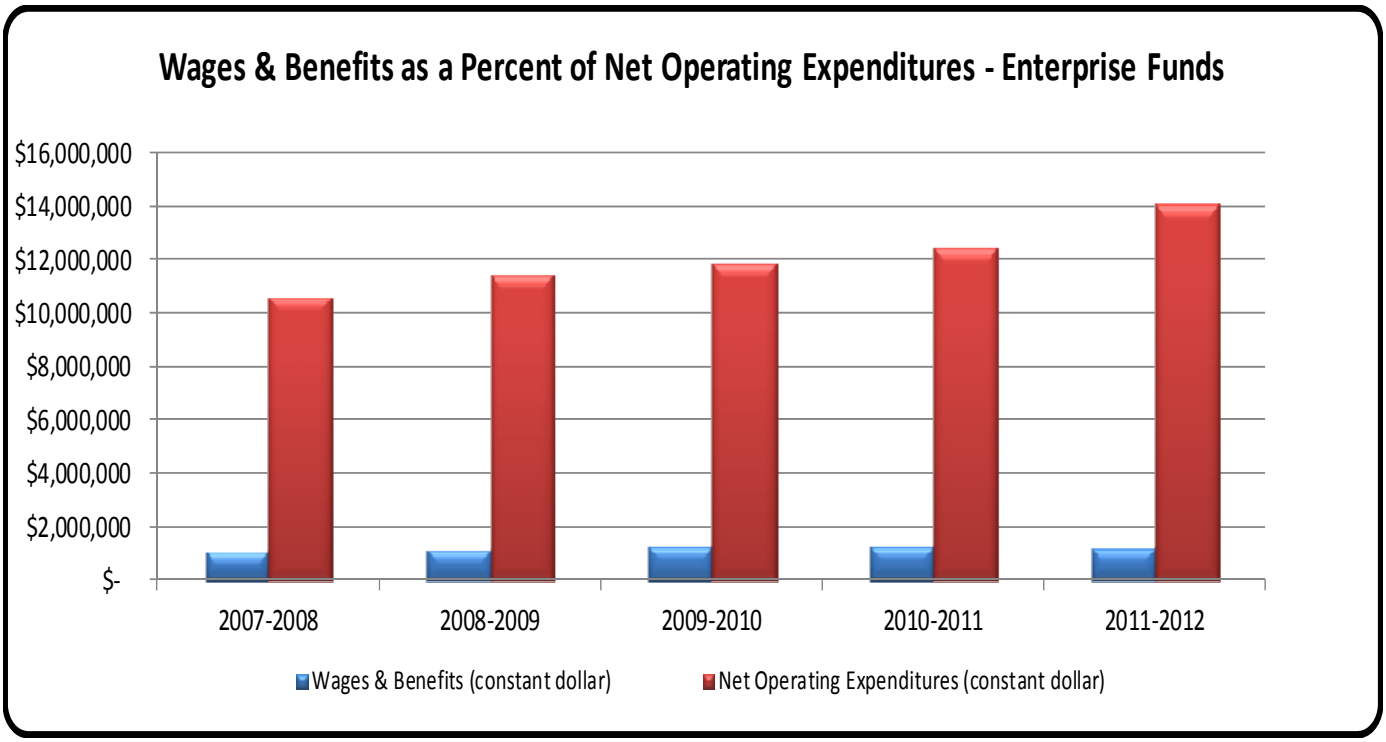

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Enterprise Funds Total Benefits | $422,891 | $486,300 | $504,132 | $579,564 | $623,106 |
| Enterprise Funds Salaries & Wages | $1,128,284 | $1,266,973 | $1,381,965 | $1,391,286 | $1,392,091 |
| % of Benefits to Salaries & Wages | 37.48% | 38.38% | 36.48% | 41.66% | 44.76% |
| % Change | | .90% | -1.90% | 5.18% | 3.10% |
| | | | | | |
| Enterprise Funds # of Employees | 25 | 26 | 26 | 26 | 26 |
| Average Cost per Employee | $16,916 | $18,704 | $19,390 | $22,291 | $23,966 |

Fringe benefits in the Enterprise Funds are also comparable to the General Fund at about 34% of full/part time salaries & wages.



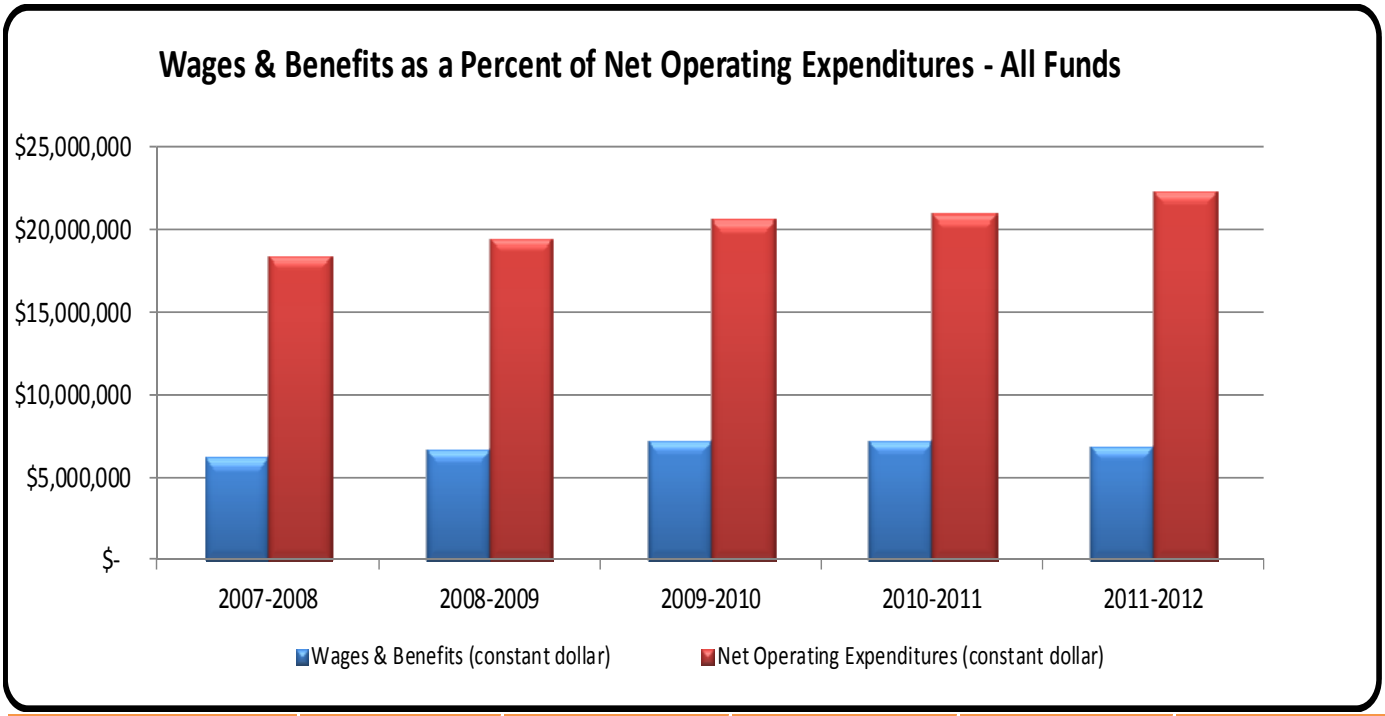

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Enterprise Funds Non-Mandated (Fringe) Benefits | $303,676 | $350,660 | $359,517 | $430,573 | $471,300 |
| Enterprise Funds Salaries & Wages | $1,120,090 | $1,258,429 | $1,372,871 | $1,386,814 | $1,383,576 |
| % Fringe Benefits to Salaries & Wages | 27.11% | 27.86% | 26.19% | 31.05% | 34.06% |
| % Change in Fringe Benefits to Salaries & Wages | | .75% | -1.68% | 4.86% | 3.02% |
| | | | | | |
| Enterprise Funds # of Employees | 25 | 26 | 26 | 26 | 26 |
| Average Cost per Employee | $12,147 | $13,487 | $13,828 | $16,561 | $18,127 |

The Enterprise Funds differ from the General Fund when comparing the cost of wages & benefits to net operating expenditures. In these funds, water and electric purchases for resale make up the largest portion of operating expenditures, making wages & benefits approximately 9% of the total net operating expenditures.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Enterprise Funds Wages & Benefits (constant dollar) | $1,128,290 | $1,220,096 | $1,334,979 | $1,323,113 | $1,283,509 |
| Enterprise Funds Net Operating Expenditures (constant dollar) | $10,737,836 | $11,524,680 | $11,959,903 | $12,515,017 | $14,219,230 |
| % of Personnel Costs to Net Operating Expenditures | 10.51% | 10.59% | 11.16% | 10.57% | 9.03% |
| % Change in Personnel Costs to Net Operating Expenditures | | .08% | .058% | -.059% | -1.55% |

Comparing wages & benefits to operating expenditures City-wide the percent is approximately 31%.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Total Wages & Benefits (constant dollar) | $6,249,490 | $6,686,102 | $7,278,701 | $7,190,241 | $6,908,539 |
| Total Net Operating Expenditures (constant dollar) | $18,431,454 | $19,508,521 | $20,598,068 | $20,961,552 | $22,361,877 |
| % of Personnel Costs to Net Operating Expenditures | 33.91% | 34.27% | 35.34% | 34.30% | 30.89% |
| % Change in Personnel Costs to Net Operating Expenditures | | .37% | 1.06% | -1.03% | -3.41% |

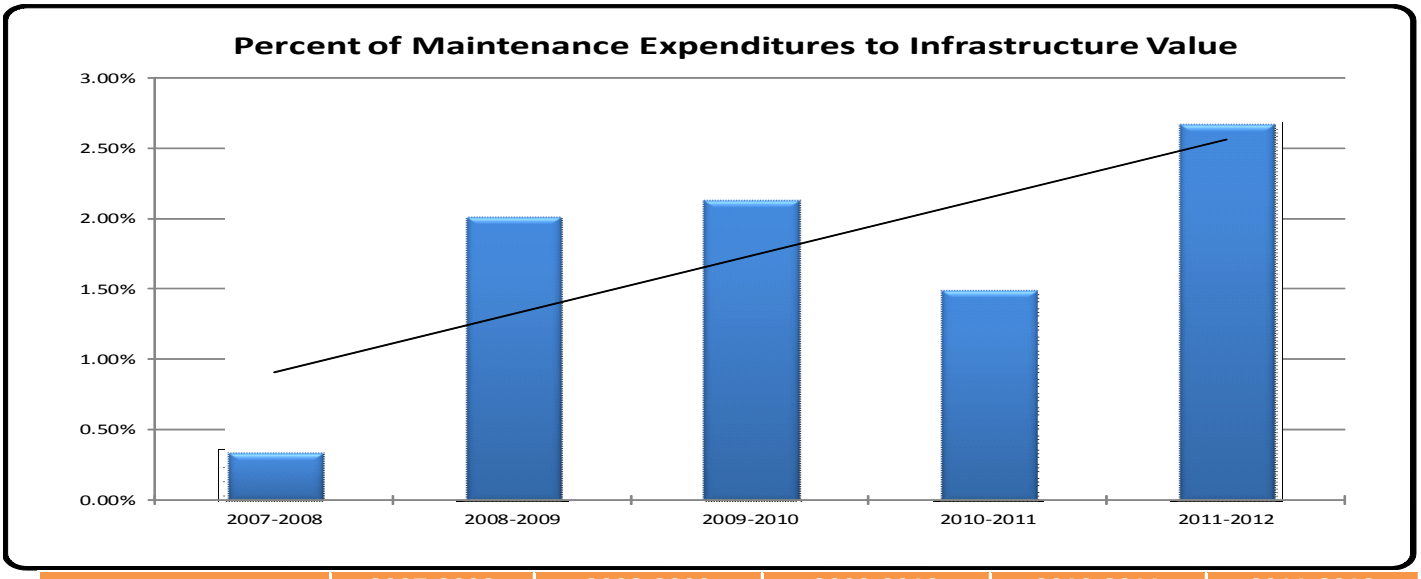
# Maintenance Effort

**Description:** The condition of a city's long-lived assets, such as buildings and infrastructure, is significant because of the tremendous cost and far-reaching consequences their decline can have on business activity, property values, and operating expenditures. Deferral of maintenance on the assets and their subsequent deterioration can create a significant unfunded liability. Maintenance expenditures should remain relatively constant in relation to the cost and nature of assets maintained. If the ratio is declining it may be a sign that a city's assets are deteriorating.

**Warning Trend:** Decreasing maintenance costs compared to asset value

**Condition:** Critical

**Analysis:** The value of the City's infrastructure and buildings assets continues to increase as new construction projects are completed. The expenditures incurred to maintain those assets have been around 2% on average over the 5-year period analyzed. As the infrastructure grows so does the need to maintain it however while there has been a 24% increase in the book value of infrastructure and buildings over the 5-year period there has been only 2.33% increase in maintenance costs compared to asset value. This indicates that there has been a significant amount of deferred maintenance over the years.



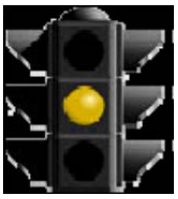

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Maintenance Expenditures | $63,206 | $397,749 | $415,786 | $330,893 | $612,683 |
| Asset Value (book) | $18,471,480 | $19,719,977 | $19,477,649 | $22,148,174 | $22,928,929 |
| % of Maintenance Costs to Asset Value | 0.34% | 2.02% | 2.13% | 1.49% | 2.67% |
| % Change | | 1.67% | 0.12% | -0.64% | 1.18% |

Although on the surface it appears that the underfunding of infrastructure maintenance is an easy way to temporarily reduce expenditures the ultimate consequences of sustained inattention can be severe and include the decreasing usefulness of the asset, increasing costs to maintain and replace the assets, and decreasing attractiveness of the community as a place to live or visit.

# Capital Outlay

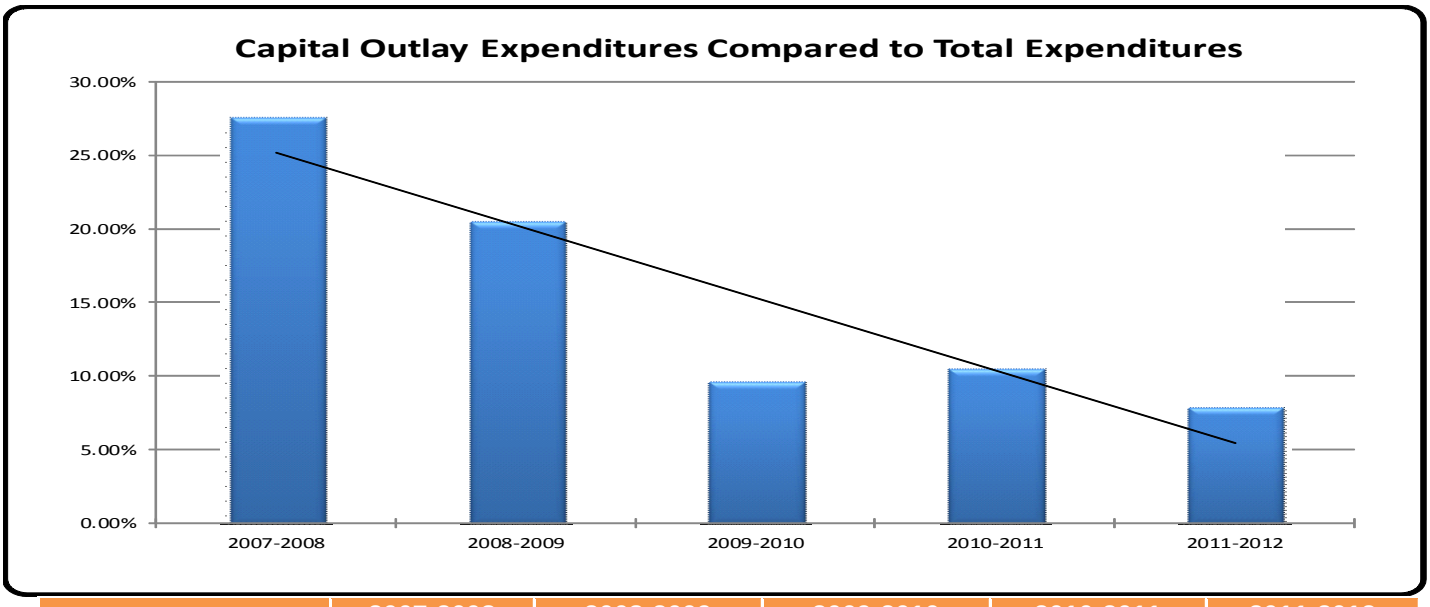
**Description:** Expenditures for equipment and improvements with a useful life expectancy greater than one year and meet the designated cost threshold are considered capital outlay. Capital expenditures may remain constant or even decline in the short run as new and replacement equipment is purchased. If the decline persists over multiple years, it can be an indicator that capital outlay needs are being deferred, resulting in the use of obsolete equipment and infrastructure.

| **Warning Trend:** A three or more year decline in capital outlay as a percent of total expenditures | **Condition:** Caution |
|---|---|



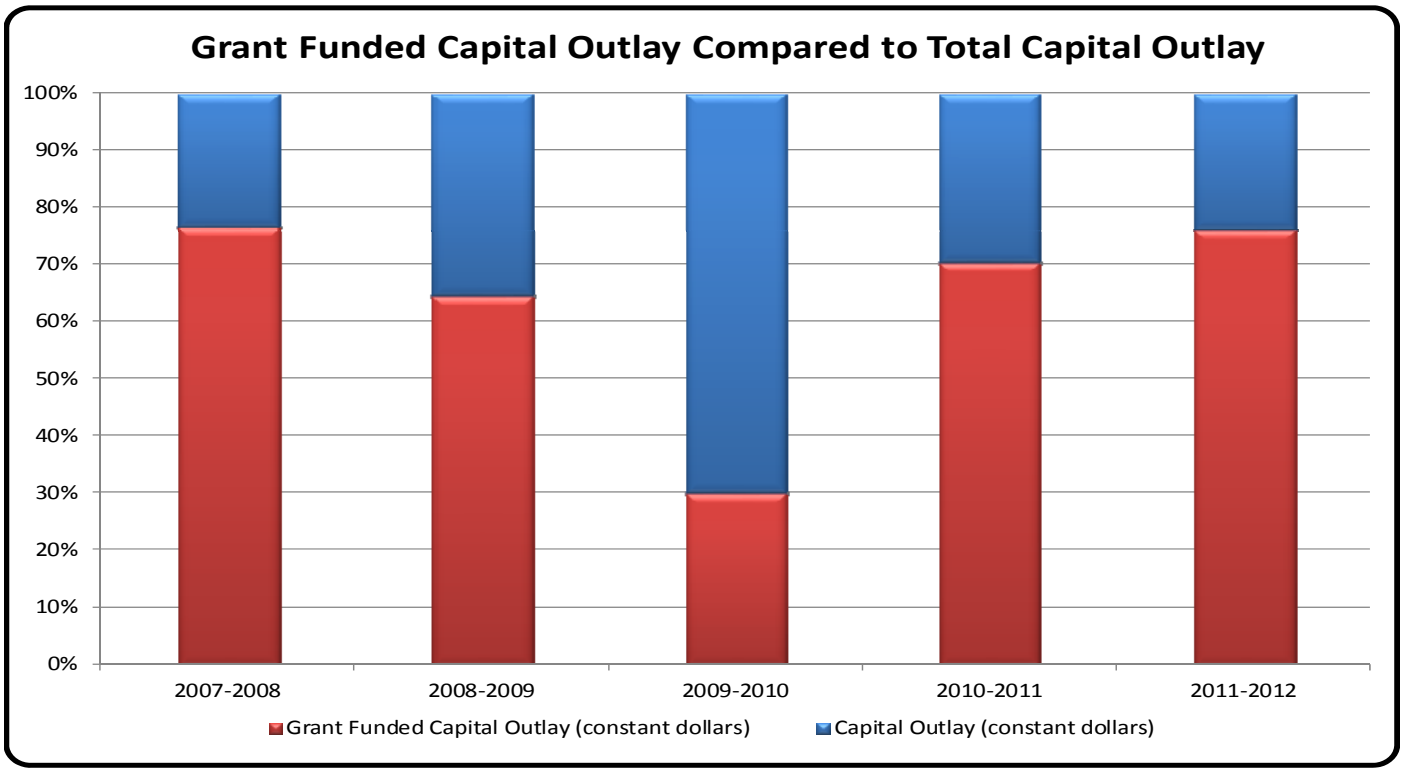
**Analysis:** Capital project expenditures in the General Fund do not typically follow a linear trend. The City has historically used unrestricted reserves or grant funding to finance capital outlay. This has allowed the City to approach most capital projects on a pay-as-you-go basis without incurring debt.

Total capital expenses have decreased 18% since FY07-08. In order to balance the budget and preserve cash balances significant cuts have been made in capital spending over the past few years. As is the case with deferred maintenance, a reduction in capital outlay and new infrastructure can result in higher future construction costs and decreasing attractiveness of the community as a place to live or visit. The numbers reflected in the following charts do not include any pass through grants.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Total Capital Outlay (constant dollars) | $3,203,695 | $2,230,921 | $987,357 | $1,074,990 | $757,072 |
| Total Expenditures (constant dollar) | $11,576,259 | $10,835,951 | $10,203,161 | $10,169,309 | $9,499,152 |
| % of Capital Outlay to Total Expenditures | 27.67% | 20.59% | 9.68% | 10.57% | 7.97% |
| % Change in Capital Outlay to Total Expenditures | | -7.09% | -10.91% | 0.89% | -2.60% |

The City is heavily dependent on grant funding for capital projects in the General Fund. In most years, the grant funded capital outlay was between 65% and 76% of the total capital outlay. This dependence on grants puts the City at a significant disadvantage if grant opportunities decline. FY09-10 showed the lowest percentage of grant-funded capital projects.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Grant Funded Capital Outlay (constant dollars) | $2,447,921 | $1,437,849 | $297,822 | $757,017 | $576,079 |
| Total Capital Outlay (constant dollar) | $3,203,695 | $2,230,921 | $987,357 | $1,074,990 | $757,072 |
| % of Grant Funded Capital Outlay to Total Capital Outlay | 76.41% | 64.45% | 30.16% | 70.42% | 76.09% |
| % Change in Grant Funded Capital Outlay | | -11.85% | -34.29% | 40.26% | 5.67 |

# OPERATING POSITION INDICATORS

Operating position refers to the ability of a city to balance the budget on a current basis, maintain reserves for emergencies, and maintain sufficient liquidity to pay bills on a timely basis.

Sufficient cash, or liquidity, refers to the flow of cash in and out of a city treasury. Cities may receive many of its revenues in large installments at infrequent intervals during the year therefore it is an advantage to have excess liquidity or cash reserves as security in the event of an unexpected delay in receipt of revenues, an unexpected decline or loss of a revenue source, or an unanticipated need to make a large expenditure. An analysis of operating position can help identify the following situations:

- Emergence of operating deficits
- Decline in reserves
- Ineffective budgetary controls
- Inefficiencies in management

The following Operating Position Indicators have been chosen for this report:

1. Unrestricted Reserves
2. Liquidity
3. Risk Exposure Ratio
4. Efficiency Ratios

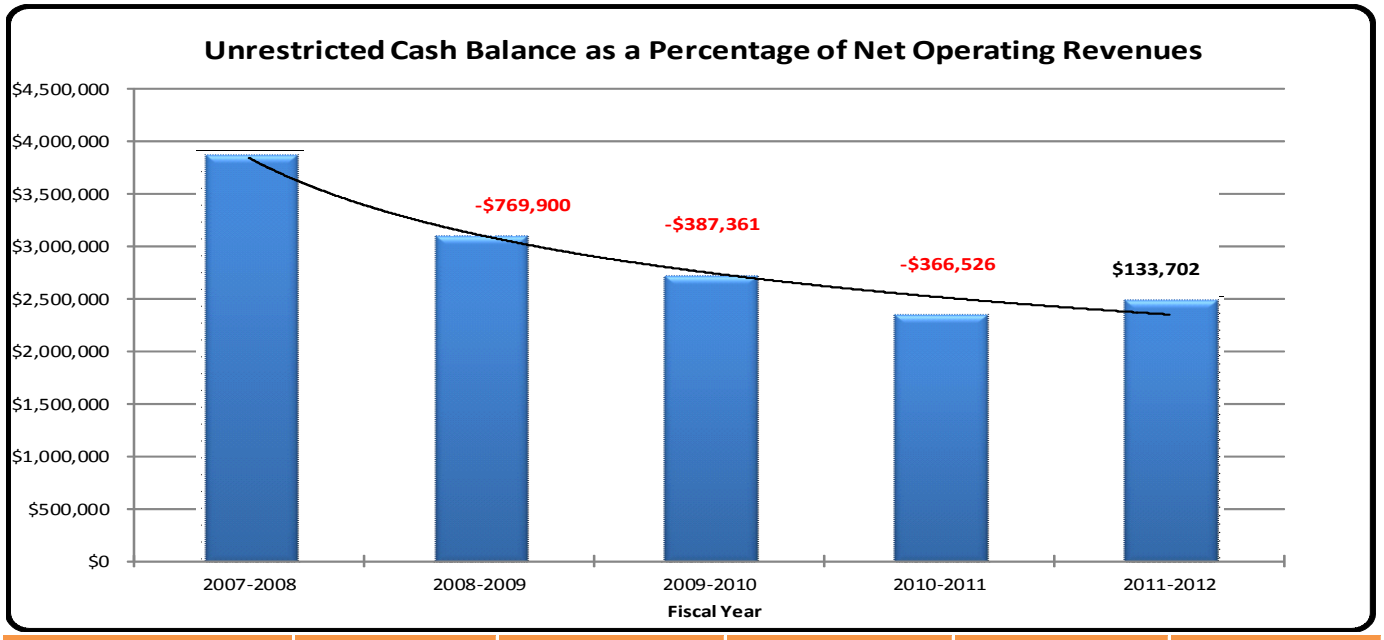
# Unrestricted Reserves

**Description:** The level of unrestricted fund balances may determine a city's ability to withstand unexpected financial emergencies in the tax supported funds. Fund balances may also determine a city's ability to manage monthly cash flows or accumulate funds for large-scale purchases without having to borrow. The use of unrestricted reserves occurs when there are not sufficient revenue sources to cover operating and capital expenses.

**Warning Trend:** Decreasing unrestricted reserves balance as a percentage of operating revenues

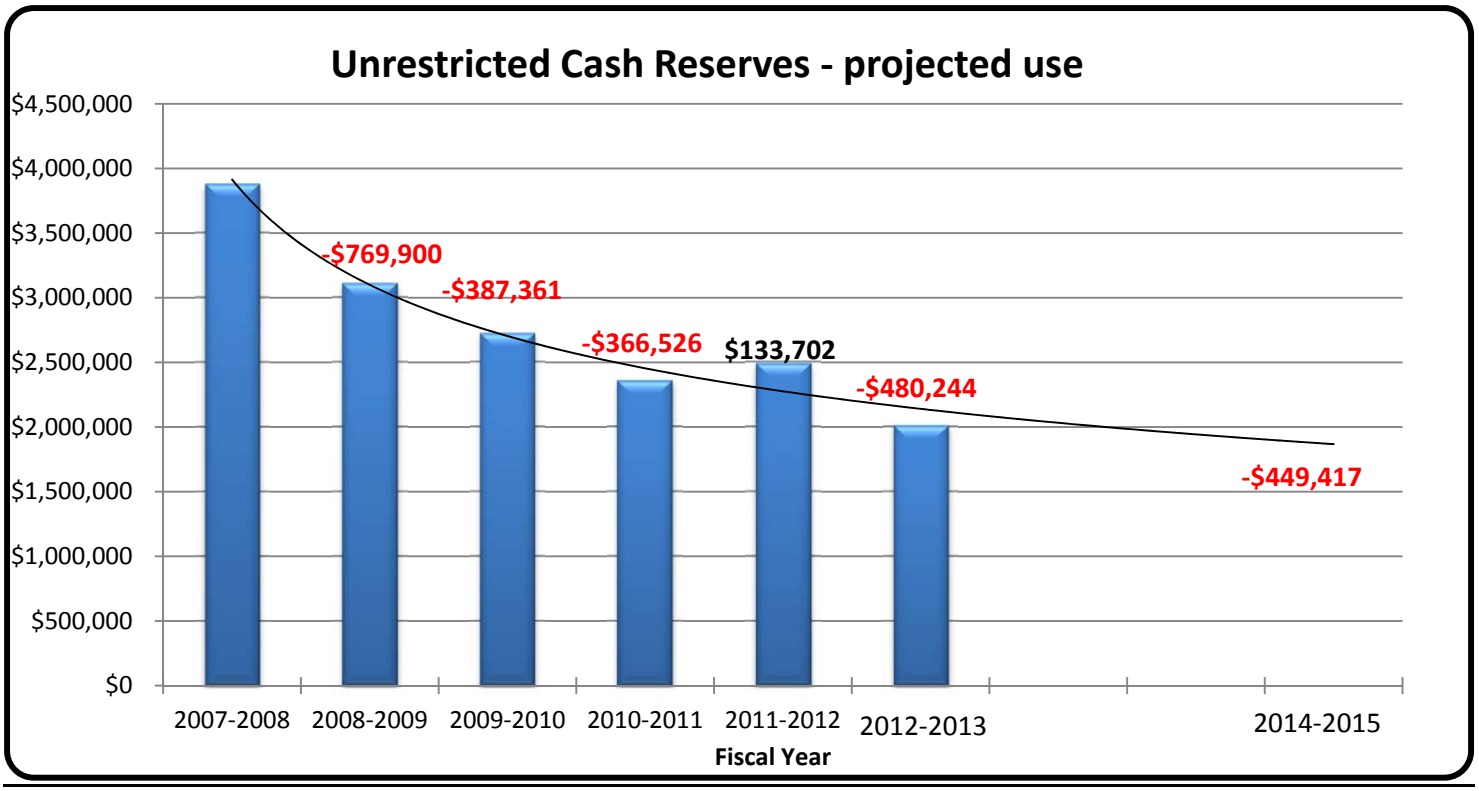
**Condition:** Critical

**Analysis:** Over the 5-year period analyzed the City's percentage of unrestricted cash reserves compared to net operating revenues has decreased approximately 17%. This indicates that the City's operating revenue sources are not sufficient to support ongoing operating and capital expenses without using unrestricted reserve balances. Continued use of unrestricted reserves will deplete the City's total cash and the City will be forced to use restricted reserves or issue debt in order to finance and maintain the existing level of services provided. Unrestricted cash in the General Fund has been reduced nearly $1.4 million over the 5-year period.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Unrestricted Cash Balance | $3,885,562 | $3,115,662 | $2,728,301 | $2,361,775 | $2,495,477 |
| % Change in Unrestricted Cash | | -19.81% | -12.43% | -13.43% | 5.66% |
| | | | | | |
| Net Operating Revenue | $8,565,944 | $8,978,806 | $8,336,105 | $9,014,805 | $8,886,100 |
| % of Unrestricted Cash to Net Operating Revenues | 45.36% | 34.70% | 32.73% | 26.20% | 28.08% |

Looking ahead, the FY12-13 budget shows an additional $480,244 which is anticipated to be used from reserves. If this trend continues, it is projected that the City will have depleted the General Fund unrestricted cash reserves by nearly $2.3 million dollars by FY14-15.



# Liquidity

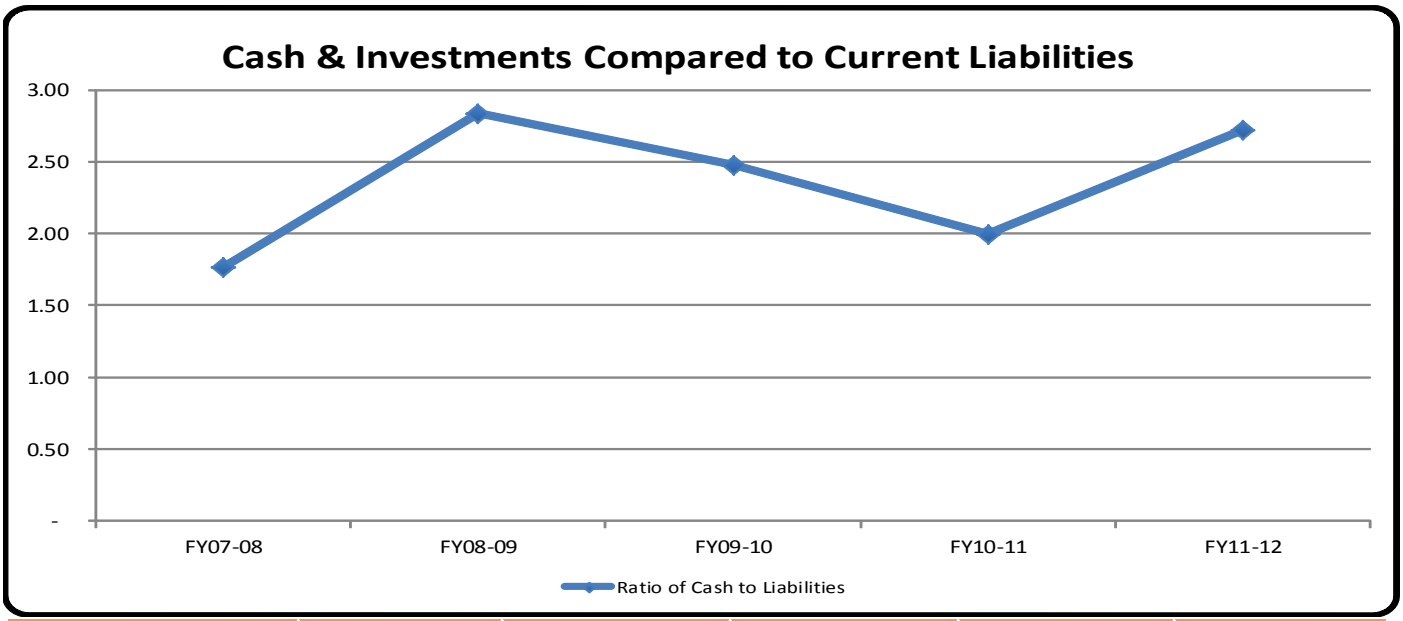
**Description:** One measure of a city's short-term financial condition is its cash position. Cash position includes cash, as well as other assets such as short-term investments that can be easily converted to cash. The level of this type of cash position, referred to as liquidity, measures a city's ability to pay its short-term obligations. Low or declining liquidity can indicate that a city has overextended itself in the long term.

The Quick Ratio is a city's cash and investments compared to current liabilities, which indicates a city's ability to reliably pay off its current liabilities. Current liabilities are all financial obligations which will come due within the next twelve months.

**Warning Trend:** Decreasing cash and investments as a percentage of current liabilities

**Condition:** Positive

**Analysis:** Over the 5-year period analyzed the City's average Quick Ratio was 2.36 in the General Fund, which means the General Fund has, on average, cash 2.36 times greater than its current liabilities. Although financial trend monitoring cannot state categorically how large the quick ratio should be for a government entity, it is commonly held that the smaller the ratio the less likely the entity is able to cover its obligations as they become due. The City shows a fairly stable trend, staying at or above a 2-times coverage for 4 of the 5 years analyzed. The reason this trend is so favorable is that there is no debt in the General Fund and its liabilities are mainly current-type such as accounts payable.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| General Fund Cash & Investments | $5,774,359 | $5,046,550 | $4,951,261 | $4,554,142 | $4,675,914 |
| General Fund Current Liabilities | $3,270,706 | $1,778,356 | $1,997,938 | $2,281,135 | $1,717,267 |
| Ratio of Cash to Current Liabilities | 1.77 | 2.84 | 2.48 | 2.00 | 2.72 |
| % Change in Ratio | | 60.74% | -12.67% | -19.44% | 36.39% |

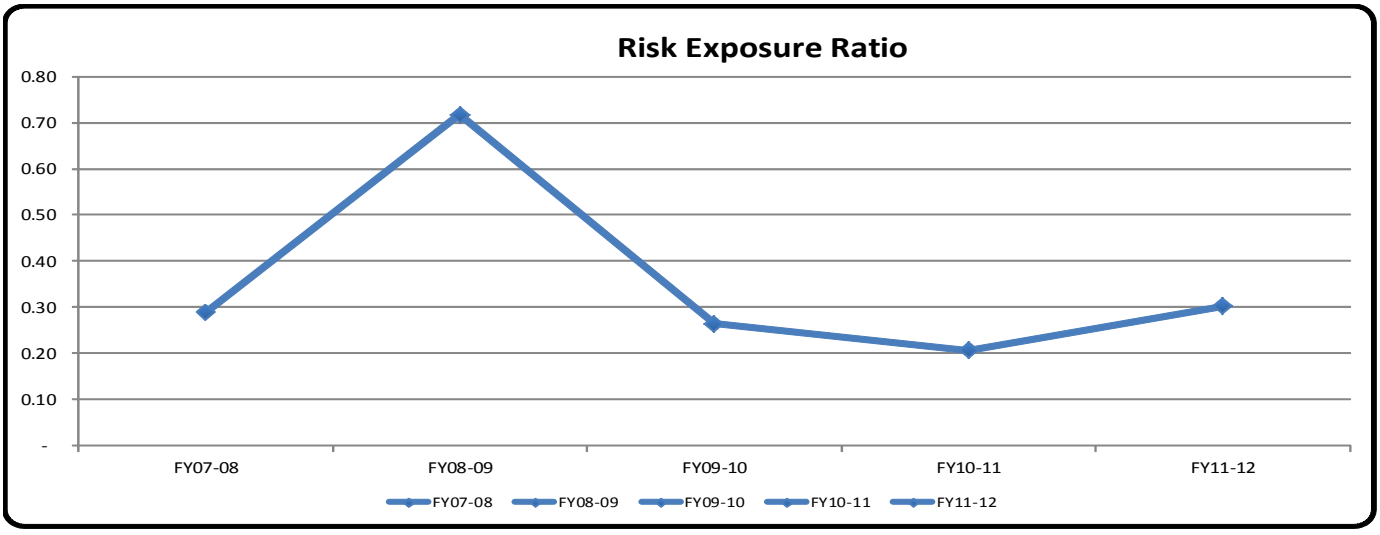
# Risk Exposure Ratio

**Description:** The same factors that reveal a city's capacity to make ends meet and to finance necessary services and capital outlay also reflect on a city's ability to withstand financial difficulties. The Risk Exposure Ratio focuses on revenue sources that are potentially subject to large, abrupt changes, specifically investment income and intergovernmental aid such as grants. The ratio expresses the percentage increase in other taxes or local revenue sources that would be required to make up for a 1 percent shortfall in those sources of funding. If a government does not have the statutory capacity to raise taxes then a high-risk exposure ratio could be cause for concern.

**Warning Trend:** Increasing ratio

**Condition:** Caution

**Analysis:** The City relies heavily on intergovernmental aid (grants) for both operating and capital expenditures. The City's risk exposure has remained fairly stable over the 5-year period analyzed with an average ratio of .36. This means that on average, for every 1 percent shortfall in revenues received from investment income and grants it requires a 0.36% increase in locally generated revenues such as local taxes, charges for services, fines, and miscellaneous revenue in order to continue the same level of services. In FY08-09 the City had two large capital grants which accounted for 80% of the intergovernmental aid that year. Without these two grants the ratio for FY08-09 would have been .21 making it very consistent with the other 4 years in the analysis. As the State has indicated recently grant opportunities may be fewer in years to come, therefore the City would need to look for other sources of revenue to continue providing the services and capital construction current funded by these grants. The City's investment income has been significantly impacted by the economy dropping nearly $200,000 annually since FY08-09. Given the current economic conditions it is not likely that investment income will increase much in the next few years.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Investment Revenue and Grants | $834,730 | $2,166,670 | $782,174 | $715,498 | $964,555 |
| Local Revenue Sources | $2,884,846 | $3,022,385 | $2,958,194 | $3,467,044 | $3,192,795 |
| Risk Exposure Ratio | .29 | .72 | .26 | .21 | .30 |

# Efficiency Ratios

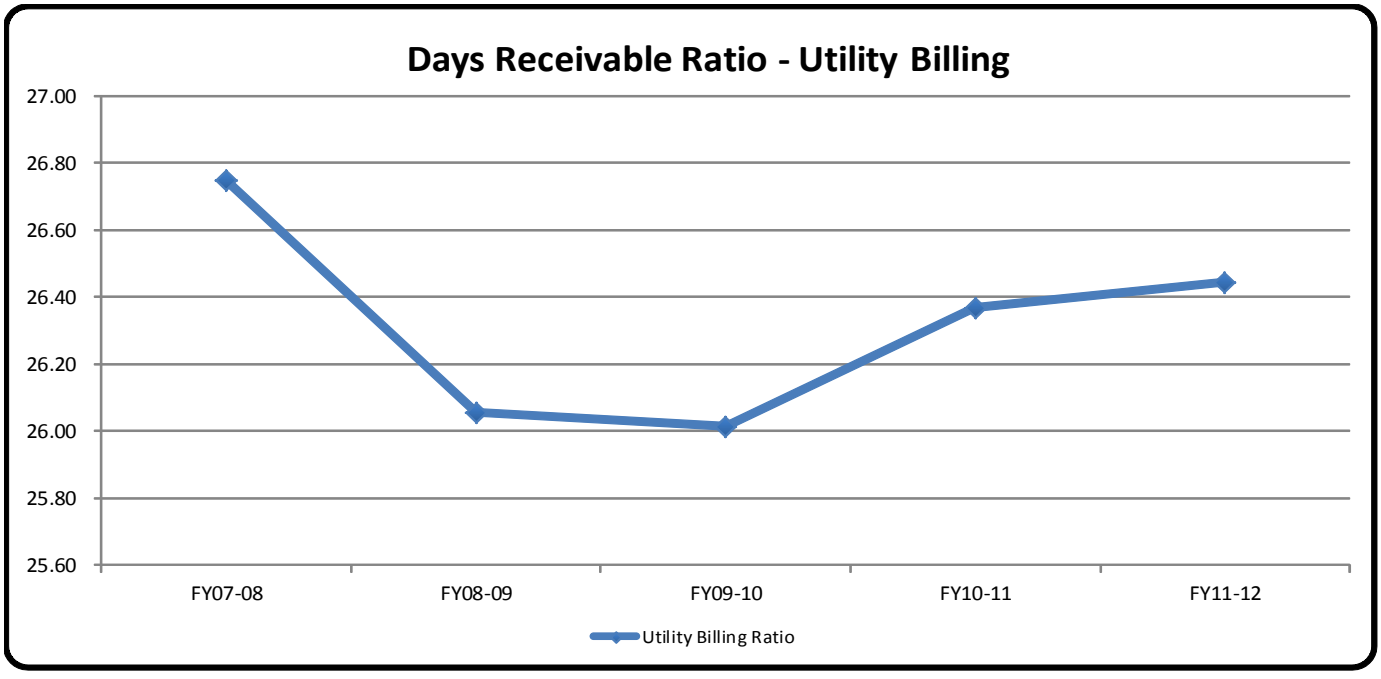
**Description:** A set of commonly used ratios, called Efficiency Ratios, are used to assess the efficiency of which a government utilizes resources such as accounts receivable and inventory. The Days Receivable Ratio shows how long, on average, it takes to collect on receivables. The Days Inventory Ratio can be used to measure inventory efficiency and how long inventory sits in stock before being used.

**Warning Trend:** Increasing ratios

## Utility Billing

**Condition:** Positive

**Analysis:** The City of Cody's collection efforts with utility billing charges is very efficient. Using a 30-day, current-period criteria the average Days Receivable Ratio is around 26 days, meaning that most active customers pay their bills on average within 30 days of being billed. There has been very little fluctuation in this ratio over the 5-year period analyzed. This indicator includes the General Fund and Enterprise Funds.

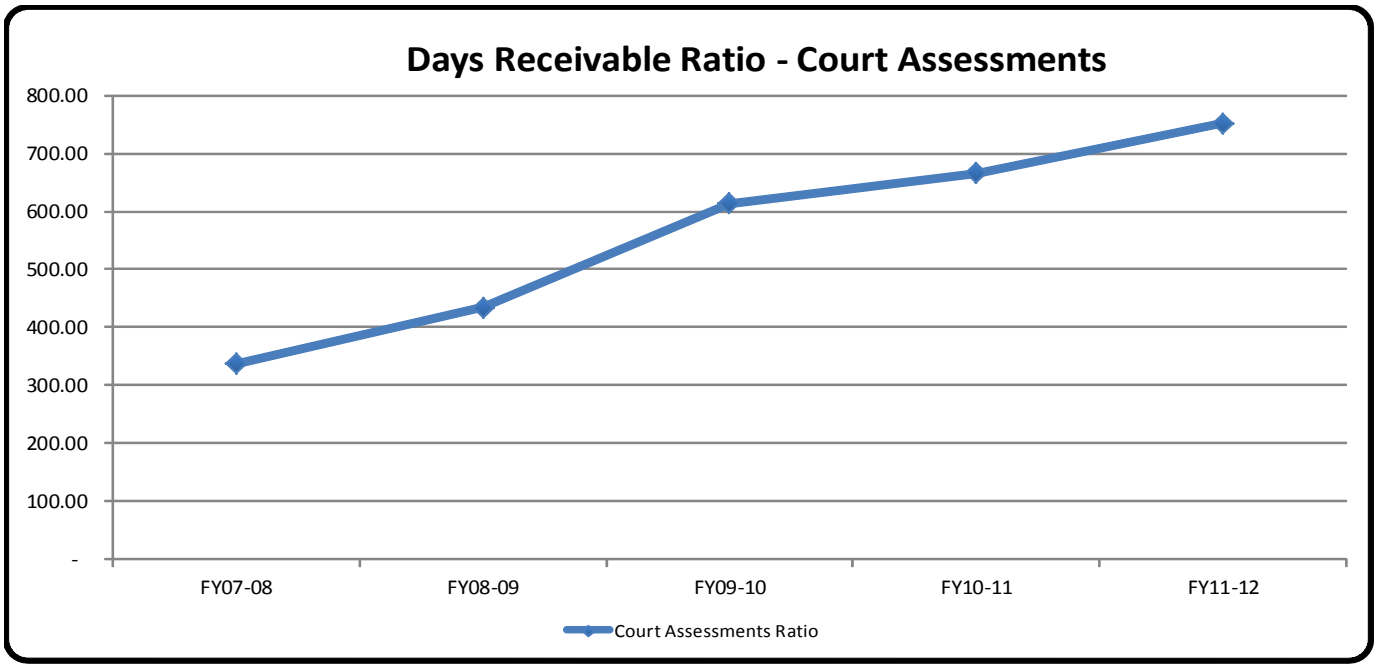



| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Average Receivable Balance | $956,736 | $949,767 | $1,051,062 | $1,127,290 | $1,186,108 |
| Utility Charges Billed | $13,056,159 | $13,305,410 | $14,747,761 | $15,604,666 | $16,372,154 |
| Days Receivable Ratio | 26.75 | 26.05 | 26.01 | 26.37 | 26.44 |
| % Change in Ratio | | -2.59% | -0.16% | 1.36% | 0.29% |

## Municipal Court

**Condition:** Critical

**Analysis:** The City's collection efforts with Court assessments are significantly less successful than with utility billing. The ratio has been steadily increasing and as of FY11-12 it had ballooned to 752 days. This means that, on average, it takes just over 2 years to collect on fines and assessments from the date they are assessed. The court collections issue is currently being reviewed and options discussed in a separate analysis.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Average Court Assessments Receivable | $440,992 | $554,064 | $527,085 | $484,074 | $416,467 |
| Fines & Fees Assessed | 477,498 | $466,175 | $313,443 | $265,203 | $202,162 |
| Days Receivable Ratio | 337.09 | 433.81 | 613.78 | 666.23 | 751.92 |
| % Change in Ratio | | 28.69% | 41.49% | 8.55% | 12.86% |

## Inventory Management

**Condition:** Caution

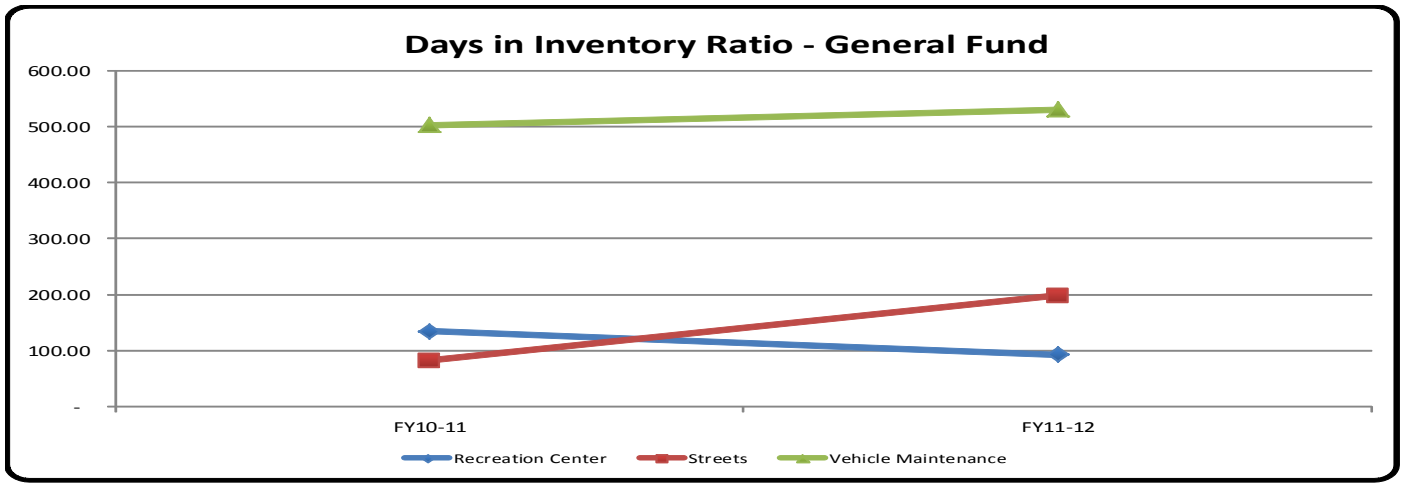
**Analysis:** The City of Cody implemented a new inventory system in July 2010 in order to better track the usage and maintain an accruate valuation of inventory therefore data for this financial indicator is not available for periods prior to FY10-11.

The Days in Inventory ratio can be used to measure inventory efficiency by calculating the average amount of time it takes for inventory to be used. Generally, the lower the number the more efficiently the inventory is being used. Factors that can impact this ratio and make it higher than normal include purchasing for volume discounts, hedging against rising prices, over-ordering, and inventory losses.

The Recreation Center has a variety of concession and point of sale items with various turn over ratios. In FY10-11 the data indicates that overall inventory sat in stock approximately 134 days in comparison to FY11-12 when it improved to 93 days.

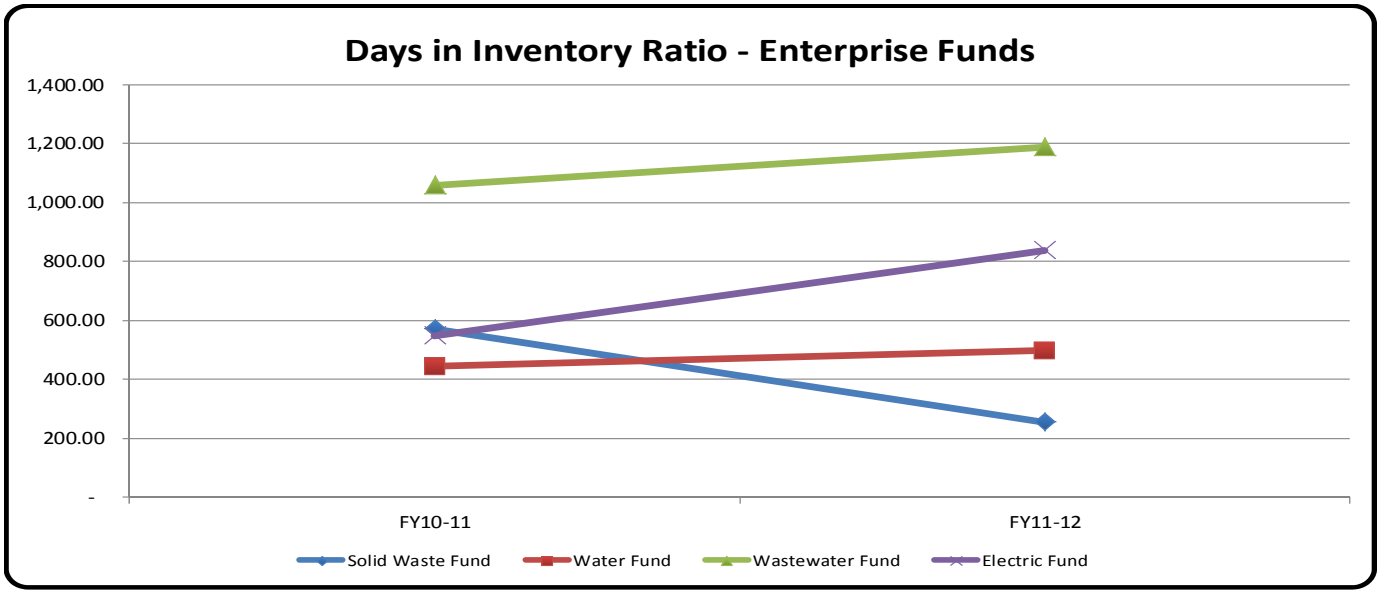
The Streets department inventory includes Grading H, chips and sand/salt mix which are purchased in bulk infrequently during the year and kept in inventory until needed, which would account for the lengthy holding periods.

The Vehicle Maintenance department has a very high Days-in-Inventory Ratio at approximately 1.5 years. During the two years the new inventory program has been in place this department has been working to reduce their inventory levels and dispose of obsolete items.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Recreation Center | N/A | N/A | N/A | 134.74 | 93.34 |
| Streets | N/A | N/A | N/A | 82.63 | 198.29 |
| Vehicle Maintenance | N/A | N/A | N/A | 502.38 | 530.22 |

This indicator can also be applied to inventory in the Enterprise Funds. With the Enterprise Fund operations it is often necessary to maintain inventory for longer periods of time due to the nature of the operations, the difficulty in obtaining specialty items (like transformers) in a short time frame, and the necessity to keep certain items on hand in case of system failures.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Solid Waste Fund | N/A | N/A | N/A | 571.24 | 255.81 |
| Water Fund | N/A | N/A | N/A | 442.63 | 496.93 |
| Wastewater Fund | N/A | N/A | N/A | 1,058.02 | 1,188.51 |
| Electric Fund | N/A | N/A | N/A | 547.51 | 837.11 |

# DEBT INDICATORS

Debt is an effective method of financing capital improvements, and may be used to stabilize short-term revenue fluctuations. Its misuse can cause serious financial problems. Even a temporary inability to repay can result in a loss of credit rating and increased cost of future borrowing.

The most common forms of long-term debt are general obligations, special obligations and revenue bonds. Even when these types of debt are used exclusively for capital projects, the outstanding debt cannot exceed the ability to repay as measured by the wealth of the community in the form of property value or personal and business income. Another method to evaluate ability to repay is to consider the amount of principal and interest or "debt service" that is obligated to be repaid each year.

Under the most favorable circumstances, debt should be proportionate in size and growth to the tax base; will not extend beyond the useful life of the facilities which it finances; will not be used to finance or balance the operating budget; will not require a repayment schedule which places an inordinate strain on a city's operating budget; and will not be so high as to jeopardize the municipal credit rating.

An examination of debt structure may reveal the following conditions:

- Inadequacies in cash management procedures
- Inadequacies in expenditure controls
- Increasing reliance on long-term debt
- Decreases in expenditure flexibility due to increased costs in the form of debt service
- Use of short-term debt to finance operations

The following Debt Indicators have been chosen for this report:

1. Debt Service
2. Debt per Capita
3. Leverage Ratio
4. Coverage Ratio

Because the General Fund has had no debt since FY08-09, this section is focused entirely on Enterprise Fund accounts.

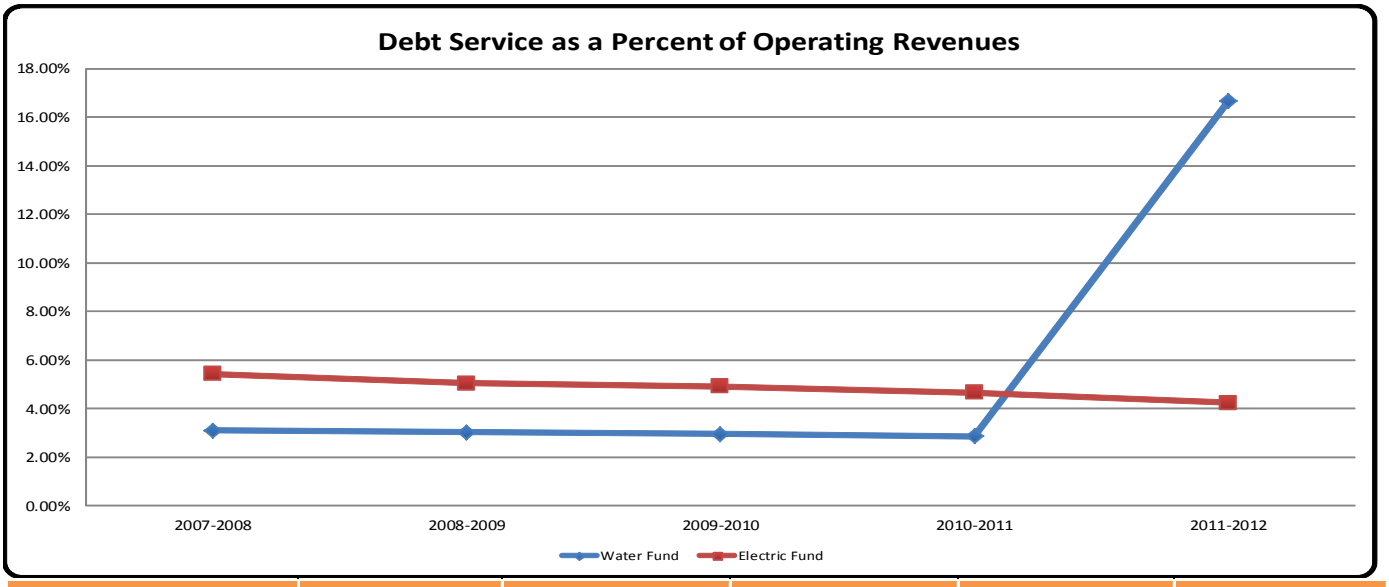
# Debt Service

**Description:** Debt service is defined as the amount of principal and interest that a city must pay each year on long-term debt plus the interest it must pay on direct short-term debt. As the debt service increases, it adds to a city's obligations and reduces expenditure flexibility. Debt service can be a major part of a city's fixed costs and increases may indicate excessive debt and fiscal strain. When debt service reaches 20% of operating revenue credit rating agencies consider it a potential problem while debt service at 10% of operating revenue or less is usually considered acceptable.

**Warning Trend:** Increasing debt service payments as a percentage of operating revenue

**Condition:** Positive

**Analysis:** The City of Cody currently has debt in the Water Fund and the Electric Fund. All debt in these funds was associated with the acquisition of capital assets and not to fund operations. There is a declining trend as the City pays off this debt and no new debt has been incurred. In FY11-12 the revenue bonds and the State drinking water revolving fund loan in the Water Fund were paid off in full, which accounts for the spike in the debt service percentage that year. With the debt service indicator at less than 5% the City has sufficient operating revenues to cover the annual debt service.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Water Fund Operating Revenues | $2,697,982 | $2,735,104 | $2,822.795 | $2,894,029 | $2,983,836 |
| Water Fund Long Term Debt Service | $83,722 | $82,617 | $83,251 | $82,769 | $497,673 |
| % of Long Term Debt Service to Operating Revenues | 3.10% | 3.02% | 2.95% | 2.86% | 16.68% |
| | | | | | |
| Electric Fund Operating Revenues | $8,120,325 | $8,442,453 | $8,867,275 | $9,508,930 | $10,088,880 |
| Electric Fund Long Term Debt Service | $440,331 | $425,950 | $435,588 | $443,725 | $426,706 |
| % of Long Term Debt Service to Operating Revenues | 5.42% | 5.05% | 4.91% | 4.67% | 4.23% |

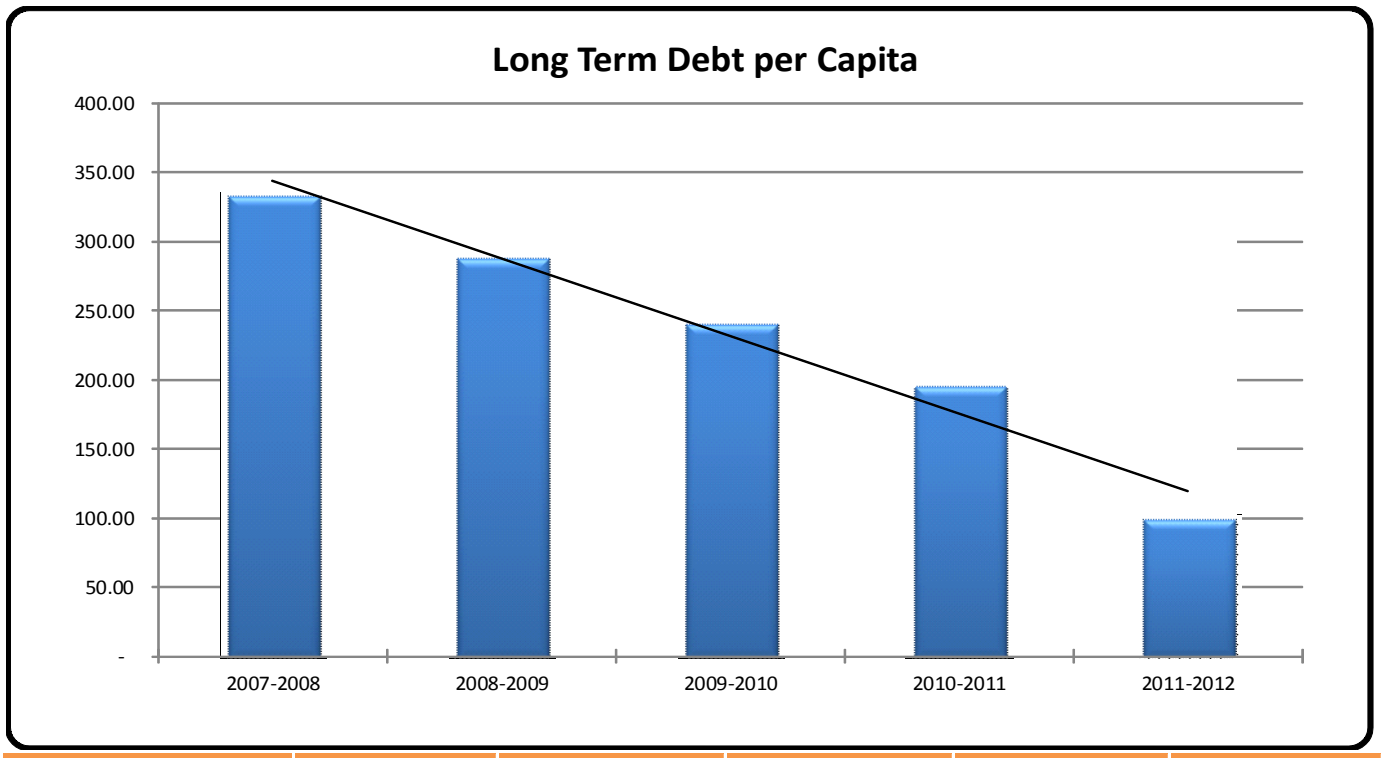
# Debt per Capita

**Description:** Increasing debt service reduces expenditure flexibility by adding to a city's obligations. Debt service can be a major portion of a government's fixed cost and excessive increases may indicate too much debt and fiscal strain.

**Warning Trend:** Increasing debt per capita

**Condition:** Positive

**Analysis:** The City of Cody's long term debt per capita has been steadily declining as the bonds and notes are paid. The City has not issued any new debt in the 5-year period analyzed and the Water Fund paid off the revenue bonds and state revolving fund loan in full, further reducing the per-capita debt load. This puts the City in a good position if new revenue bonds are needed for future capital expansion.



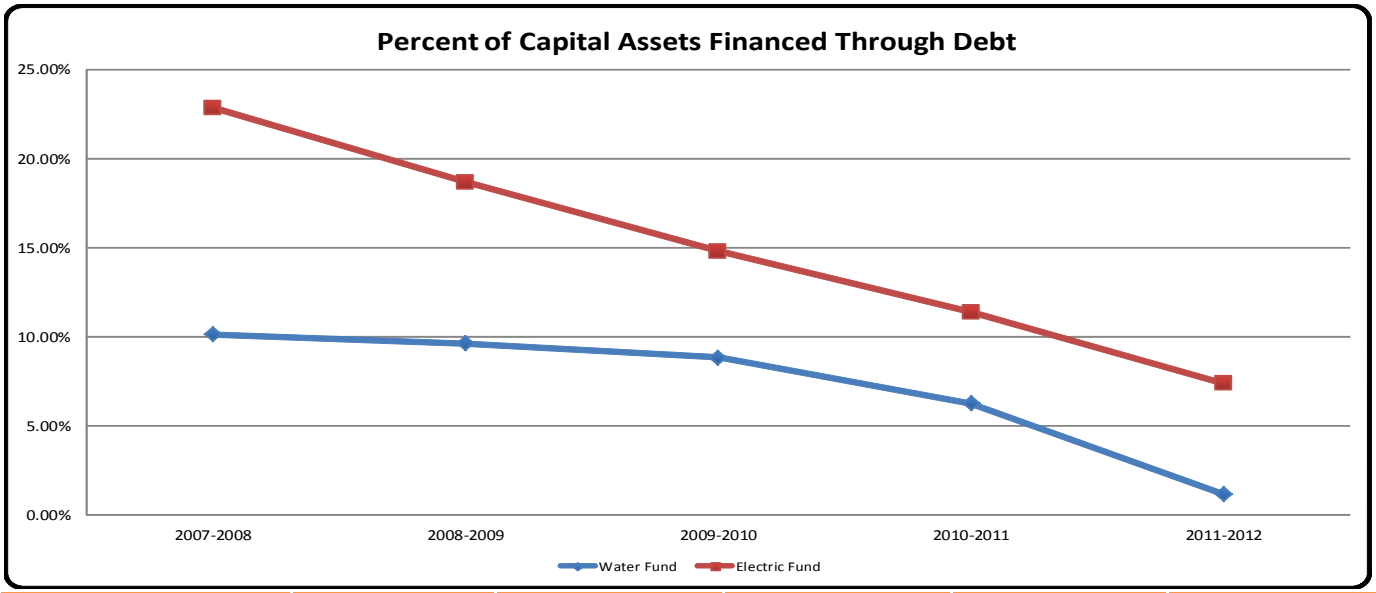

| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Total Long Term Debt | $3,074,329 | $2,695,487 | $2,297,484 | $1,872,812 | $964,407 |
| Population | 9,212 | 9,335 | 9,520 | 9,541 | 9,653 |
| Long Term Debt per Capita | $333.73 | $288.75 | $241.33 | $196.29 | $99.91 |
| % Change in Long Term Debt per Capita | | -13.48% | -16.42% | -18.66% | -49.10% |

# Leverage Ratio

**Description:** Leverage is the degree to which a government's assets are financed through borrowing and other long term obligations.

| **Warning Trend:** Increasing percentage of assets financed through debt | **Condition:** Positive |  |
|---|---|---|

**Analysis:** As the City pays off its long term debt the debt-to-asset ratio decreases. As of FY11-12 only 1.16% of the water fund assets and 7.4% of the Electric Fund assets were still financed through debt. This is a good sign which indicates the City is able to make capital improvements on a pay-as-you go basis without incurring new debt. The City should be cautious however in using debt; while it would facilitate the construction or acquisition of additional infrastructure taking on increased debt can strain the City's finances for many years into the future.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Water Fund Net Capital Assets | $7,797,192 | $7,733,789 | $7,892,036 | $10,324,301 | $9,860,650 |
| Water Fund Outstanding Long Term Debt | $790,848 | $745,488 | $697,483 | $647,810 | $114,407 |
| % of Capital Assets Financed Through Debt | 10.14% | 9.64% | 8.84% | 6.27% | 1.16% |
| | | | | | |
| Electric Fund Net Capital Assets | $9,958,921 | $10,441,509 | $10,817,492 | $10,748,040 | $11,492,596 |
| Electric Fund Outstanding Long Term Debt | $2,275,000 | $1,950,000 | $1,600,000 | $1,225,000 | $850,000 |
| % of Capital Assets Financed Through Debt | 22.84% | 18.68% | 14.79% | 11.40% | 7.40% |

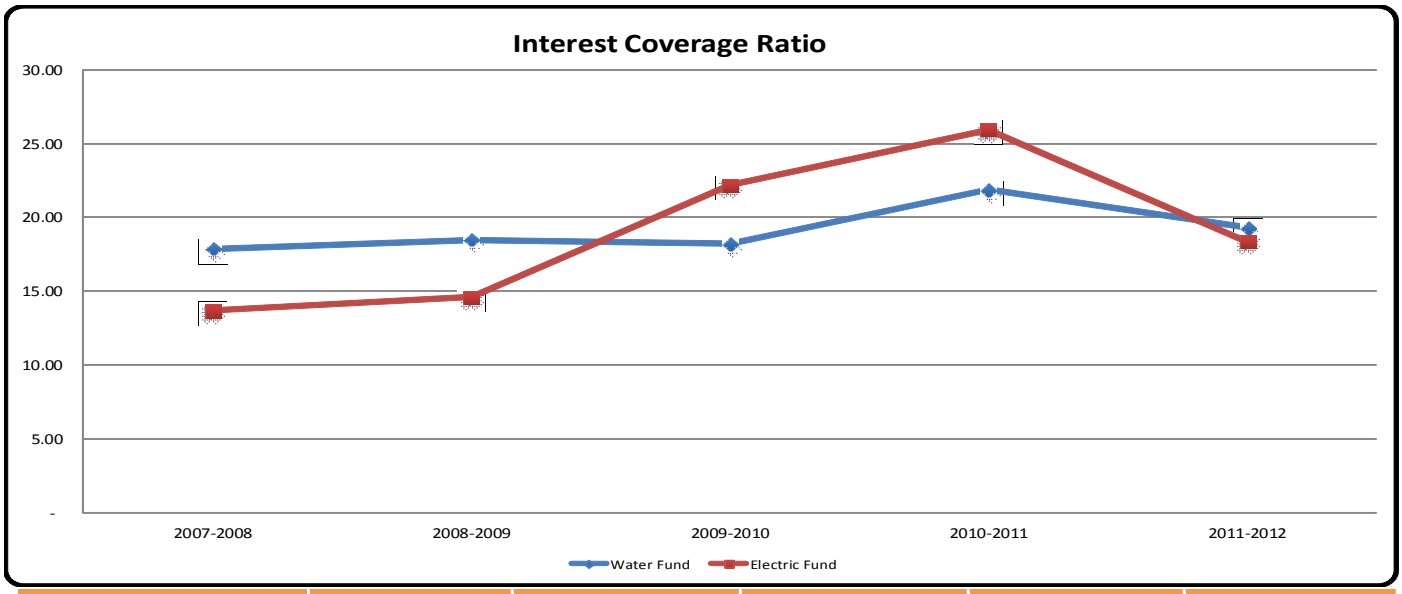
# Coverage Ratio

**Description:** There are two typical coverage ratios used in financial analysis. The first is the Interest Coverage Ratio which is used to determine how easily a government can pay interest on outstanding debt. The second is the Debt Service Coverage Ratio which is a measurement of a governmental entity's ability to produce enough cash to cover its debt payments. A ratio of less than 1 would mean the entity does not generate enough income to cover annual debt payments

**Warning Trend:** A ratio lower than 1 or a declining ratio

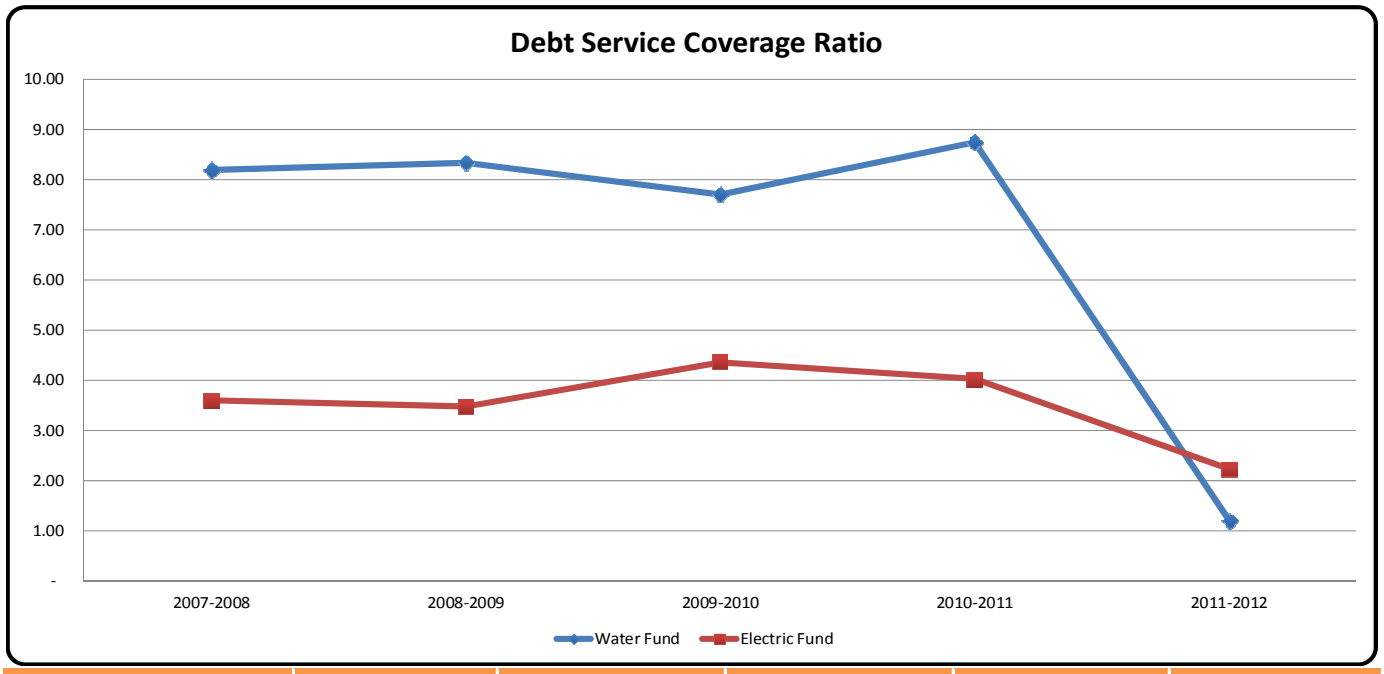
**Condition:** Positive

**Analysis:** The Interest Coverage Ratios for the Water and Electric funds are both strong, averaging 19, meaning that operating revenues are 19 times greater than the interest expense and the funds are generating sufficient operating revenue to pay the interest.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Water Fund Cash Flow from Operations | $685,583 | $688,680 | $641,536 | $723,843 | $597,726 |
| Water Fund Interest Expense | $38,363 | $37,257 | $35,246 | $33,095 | $30,952 |
| Interest Coverage Ratio | 17.87 | 18.48 | 18.20 | 21.87 | 19.31 |
| | | | | | |
| Electric Fund Cash Flow from Operations | $1,580,328 | $1,476,810 | $1,897,550 | $1,781,498 | $949,620 |
| Electric Fund Long Term Debt Service | $115,331 | $100,950 | $85,587 | $68,725 | $51,706 |
| Interest Coverage Ratio | 13.70 | 14.63 | 22.17 | 25.92 | 18.37 |

The Debt Service Coverage Ratios for both funds are not as high as the interest coverage but are still sufficient to cover the total debt service by 3.53 on average for the Electric Fund and 8.24 for the Water Fund. The Water Fund shows a significant decline in this coverage ratio for FY11-12 which is due to the payoff of the revenue bonds and revolving fund State loan and not to revenue deficiencies. The Electric Fund shows a decline between FY10-11 and FY11-12, and although the ratio is still above 1 this could be a concern if operating surpluses continue to decline in this fund.




| | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 |
|---|---|---|---|---|---|
| Water Fund Cash Flow from Operations | $685,583 | $688,680 | $641,536 | $723,843 | $597,726 |
| Water Fund Long Term Debt Service | $83,722 | $82,617 | $83,251 | $82,769 | $497,673 |
| Debt Service Coverage Ratio | 8.19 | 8.34 | 7.71 | 8.75 | 1.20 |
| | | | | | |
| Electric Fund Cash Flow from Operations | $1,580,328 | $1,476,810 | $1,897,550 | $1,781,498 | $949,620 |
| Electric Fund Long Term Debt Service | $440,331 | $425,950 | $435,588 | $443,725 | $426,706 |
| Debt Service Coverage Ratio | 3.59 | 3.47 | 4.36 | 4.01 | 2.23 |

# CONCLUSIONS

The historical trends presented in this report are a reminder of the significant changes the City has experienced over the past five years. In the more recent years we have seen the decline in revenue and the need to cut expenditures. The message of most economic forecasters is that the return to growth will require more patience as the economic recovery is not repeating the past where recessionary periods were followed by very robust growth. In this era of fiscal uncertainty, the City needs to develop processes and implement policies that will move the City forward to improved financial stability. If revenue declines worsen or do not improve from the current levels the City could fall into fiscal distress unless sustainable strategies are implemented.

**Positive Trends**

(1) Even though population within the City has increased nearly 5%, the number of employees per capita has remained consistent over the last five years and as of FY11-12 was slightly less than FY07-08. In the last three years the total number of employees decreased by 4. This indicates that the City has been able to continue providing services to an increasing population base without increasing the employee base.

(2) The City's liquidity position is good, with a ratio of 2.36. This means that the City has, on average, cash balances 2.36 times greater than its current liabilities. This shows that the City is not heavily dependent on debt issuance.

(3) The efficiency ratio for Utility Billing is very good for active account holders. There are still ongoing collection issues with obtaining payment on terminated accounts but the processes in place for active accounts are working well.

(4) All of the debt indicators are good. The City currently has debt only in the Water Fund and the Electric Fund and this debt was associated with capital improvements and not to fund operations. The City was able to significantly reduce its debt load by paying off the revenue bonds and the DWSRF loan in the Water Fund during FY11-12. The remaining debt in the Water Fund is expected to be paid off in 2018, although this fund has the capacity to pay off the remaining $114,407 early. The Electric Fund bonds in the amount of $850,000 are expected to be paid off in 2013. While the City's capacity for issuing additional debt to fund capital improvements is high, this funding option should be used with caution.

**Neutral Trends – ongoing monitoring recommended**

(1) Property valuation within the City started declining in FY10-11 and showed a slight rebound in FY11-12. Since property tax revenues are based on property valuations continued declines in values will hurt the City's revenues. While the City has no control over property values, monitoring the annual valuation and implementing proactive measures to neutralize any negative impact is recommended.

(2) Personal income per capita is resource indicator that is a measure of a community's spending ability. When income per capita decreases the City experiences decreases in sales and use tax revenues. Monitoring changes in personal income per capita and implementing action to neutralize any negative impact is recommended.

(3) Operating transfers from the Enterprise Funds to the General Fund helps offset the cost of services provided by the General Fund to support utility operations. The City uses a cost of service analysis to determine the value of the services provided and currently operating transfers are approximately 15% of the General Fund's total operating revenues. It would be easy for the City to rely more heavily on operating transfers if other sources of revenue or decreases in expenditures in the General Fund are not implemented. Monitoring the amount of operating transfers each year and evaluating any significant increases is recommended.

**Cautionary Trends – action may be required soon**

The City has been diligent in maintaining fiscal conservancy, however when looking at the data presented in this report, some cracks begin to appear that indicate there may be long-term effects that need to be addressed sooner rather than later.

(1) The Community Resource Indicators reflect a current unemployment rate of 6%. This, combined with a slow growth rate in personal income per capita affects the City's revenues because consumer spending tends to be lower when these conditions exist. If unemployment continues to be high the City will experience ongoing decreases in revenue.

(2) Intergovernmental revenue for the City makes up about 42% on average of the City's gross operating revenues. Given the City's strong dependence upon external revenue sources and its difficulty in replacing it with a sustainable alternative, lack of intergovernmental revenue growth will continue to be a primary cause of budget difficulties.

(3) Property tax revenues have declined along with property tax values over the past two years. Although revenues have not gone below FY07-08 levels the decline and potential slow growth in future years may require the City to explore other revenue sources to compensate for lower property tax revenues.

(4) The City is heavily dependent on sales and use tax revenue. While the trend is slowing improving the slow growth and continuing changes to economic conditions may require the City to explore other more permanent revenue sources to replace lost property tax revenues.

(5) Employee wages and benefits make up approximately 70% of the General Funds operating expenditures and approximately 31% of the City as a whole including Enterprise Funds. The City has significantly cut back other operating expenditures during the past few years in order to balance the budgets so the wages and benefits percentage appears higher than normal in FY10-11 and FY11-12. It is not uncommon for personnel costs to be a large portion of an entity's operating expenses however it is important for fiscal heath to avoid significant increases over time.

(6) The City's capital outlay has been on a declining trend over the 5-year period. This has also been a significant source of budget cuts and since the City is heavily reliant on grants for capital projects when grant funds decline so does the City's ability to continue capital improvements. The City has also come to rely on certain operating grants over the past few years which are no longer being funded. This places the City in the position of continuing to fund these programs from other revenue sources, from reserve funds or to consider eliminating the programs they funded.

(7) The Risk Exposure Ratio also indicates a dependence on grants for funding operations and capital. If grant sources decline the City would not be able to support the services provided by these grants without an increase in other revenue sources.

(8) The Days in Inventory ratios are high which can be indicative of several factors. In the case of the Electric Fund, inventory is often purchased in advance and held until needed due to the lengthy lead time required to obtain the materials. This can also be the case with some items in the Water and Wastewater funds. These situations are not uncommon and usually not a cause for concern, however high ratios can also be an indicator of over-ordering, inventory losses, inefficient management of stock or errors in reporting inventory transactions and counts. The current inventory system has been in place for just over two years and had not produced enough trend data to be effectively analyzed in detail until now. A full analysis of the inventory would be necessary in order to determine the cause of the high ratios and to make any subsequent recommendations for improvement.

**Critical Trends – immediate action necessary**

(1) The Operating Revenue per Capita indicator shows an overall 8% decline over the 5-year period analyzed. While Net Operating Expenditures per Capita have stayed in line with the Net Operating Revenues per Capita for the past two years, this is mainly due to the significant cuts made to operating expenditures necessary to temporarily balance the budgets rather than through utilizing a sustainable budget model. These temporary cuts are not addressing the underlying fiscal problems and unless significant changes are made the City will continue to experience fiscal distress.

(2) The Maintenance Effort Indicator shows a fluctuating trend. This is one area which is heavily impacted by budget cuts and is currently at less than 3% of asset value. If this trend continues the City's infrastructure assets will deteriorate and create more expensive repairs and replacements in the future.

(3) The Operating Position Indicators show a dependence on the use of cash reserves to cover deficits and fund operations and capital over the years. Unrestricted cash balances in the General Fund have declined 35% over the 5-year period analyzed. If this trend continues unrestricted cash reserves could be depleted to levels which would negatively impact the City's ability to pay ongoing current obligations.

(4) The City's use of resources such as court fines receivable shows a significant need for improvement. Court collections have decreased nearly 40% since FY07-08. Court fines are inherently difficult to collect due to the nature of the source however the declining trend indicates the current collection efforts have not been very successful in the long term and this revenue source will continue to decline unless improvements can be made.

# RECOMMENDATIONS

Although the City has made significant cuts in expenditures over the past few years, they are temporary solutions to the long-term problem of declining revenues and increasing costs. If these trends continue the City's ability to provide essential services will deteriorate. The financial indicators analyzed in this report have identified some areas of concern and some areas which need immediate attention and in order for the City to maintain stability and build resources for the future it is important that the City utilize a proactive approach in monitoring and responding before a fiscal crisis occurs. Based on this analysis the following recommendations are proposed:

(1) **Continue efforts to improve court assessment collections.** This is an area which has been analyzed in detail during the last year. Some of the recommendations presented in that analysis has been implemented however collections continue to decline. While this is inherently a difficult type of revenue to collect new strategies could be explored.

(2) **Analyze inventory trends**. Prior to FY10-11 the City did not have an inventory tracking system in place. The past two years of data have shown high Days in Inventory ratios which should be explored further to determine if the cause is due to operational necessity or if other factors exist such as inventory losses, inefficient management of stock or errors in reporting inventory transactions and counts.

(3) **Develop and implement a sustainable budget model.** The current, traditional style budget model focuses on historical costs and revenue sources while a sustainable model utilizes a priority-driven, outcome-based approach.

The Philosophy of Priority-Driven Budgeting:
The underlying philosophy of priority-driven budgeting is about how a government entity should invest resources to meet its stated objectives. It helps to better articulate why the services offered exist, what price is paid for them, and, consequently, what value they offer citizens. The principles associated with this philosophy of budgeting are:

- Prioritize Services. Priority-driven budgeting evaluates the relative importance of individual programs and services rather than entire departments. It is distinguished by prioritizing the services a government provides, one versus another.

- Do the Important Things Well. In a time of revenue decline, a traditional budget process often attempts to continue funding all the same programs it funded last year, albeit at a reduced level (e.g. across-the-board budget cuts). Priority-driven budgeting identifies the services that offer the highest value and continues to provide funding for them, while reducing service levels, divesting, or potentially eliminating lower value services.

- Question Patterns of Spending. An incremental budget process doesn't seriously question the spending decisions made in years past. Priority-driven budgeting puts all the money on the table to encourage more creative conversations about services.

- Spend Within the Organization's Means. Priority-driven budgeting starts with the revenue available to the government, rather than last year's expenditures, as the basis for decision making.

- Know the True Cost of Doing Business. Focusing on the full costs of programs ensures that funding decisions are based on the true cost of providing a service.

- Provide Transparency of Community Priorities. When budget decisions are based on a well-defined set of community priorities, the government's aims are not left open to interpretation.

- Provide Transparency of Service Impact. In traditional budgets, it is often not entirely clear how funded services make a real difference in the lives of citizens. Under priority-driven budgeting, the focus is on the results the service produces for achieving community priorities.

- Demand Accountability for Results. Traditional budgets focus on accountability for staying within spending limits. Beyond this, priority-driven budgeting demands accountability for results that were the basis for a service's budget allocation.

**How is Budgeting for Outcomes Different?**

| | Traditional Budgeting | Budgeting for Outcomes |
|---|---|---|
| Budget Begins With | Last year's budget | Community priorities |
| Focuses On | Revenues vs expenses | Value of services |
| Encourages | Low risk, same as before approach | New ideas, innovations, cooperation and improvement |
| Motivation | Be fair to all, spread out the cuts | Get the best results that match priorities |

**How do Budgeting Roles Change under BFO?**

| | Traditional Budgeting | Budgeting for Outcomes |
|---|---|---|
| Departments | Use prior history as basis for this year's requests | Link expenditures to results and priorities |
| Analysts | Find and cut unnecessary costs | Improve links between results and services, facilitate department cooperation, identity efficiencies |
| Elected Officials | Cut costs or raise revenues | Choose services that provide results citizens are willing to pay for |

(4) **Implement Municipal Benchmarking.** Another component that works in conjunction with developing sustainable budgets is municipal benchmarking. Benchmarking is a way for governments to analyze the effects of budgeting for outcomes and to measure performance. By establishing a set of performance standards for each department and area of service the City can monitor how effectively the budget is performing as well as the efficiency and effectiveness of the services provided. By utilizing industry-standard benchmarks the City can evaluate its performance of services provided to the community.

# SUMMARY OF FINANCIAL INDICATORS

| Indicator | Formula | Page Reference |
|---|---|---|
| Property Valuation | Change in Property Value / Prior Year Property Value | 5 |
| Personal Income Per Capita | Change in Personal Income per Capita / Prior Year Personal Income Per Capita | 6 |
| Employment Base | Change in Unemployment Rates / Prior Year Unemployment Rates | 7 |
| Operating Revenues per Capita | Constant Dollar Net Operating Revenues / Population | 9 |
| Intergovernmental Revenues | Intergovernmental Operating Revenues / Gross Operating Revenues | 11 |
| Property Tax Revenues | Change in Property Tax Revenues / Constant Dollar Prior Year Property Tax Revenues | 12 |
| Uncollected Property Taxes | Uncollected Property Taxes / Property Tax Levy | 14 |
| Sales & Use Tax Revenue per Capita | Constant Dollar Sales & Use Tax / Population | 15 |
| Operating Transfers | Operating Transfers / Gross Operating Revenues | 17 |
| Operating Expenditures per Capita | Constant Dollar Net Operating Expenditures / Population | 19 |
| Employees per Capita | Number of Municipal Employees / Population in Thousands | 20 |
| Employee Wages & Benefits | Employee Wages & Benefits / Net Operating Expenditures | 21 |
| Fringe Benefits | Employee Benefits / Employee Wages | 22 |
| Maintenance Effort | Expenditures for Repair & Maintenance of Assets / Asset Book Value | 28 |
| Capital Outlay | Constant Dollar Capital Outlay / Constant Dollar Gross Expenditures | 29 |
| Unrestricted Reserves | Unrestricted Reserve Balance / Net Operating Revenues | 32 |

| | | |
|---|---|---|
| Liquidity | Total Cash & Investments<br>Current Liabilities | 34 |
| Risk Exposure | Investment Income + Grants<br>Local Revenue Sources | 35 |
| Days Receivable | Average Receivable Balance x 365<br>Revenues Billed/Assessed | 36 |
| Days in Inventory | Average Inventory x 365<br>Cost of Goods Sold | 38 |
| Debt Service | Debt Service<br>Gross Operating Revenues | 41 |
| Debt per Capita | Long Term Debt Outstanding<br>Population | 42 |
| Leverage | Long Term Debt Outstanding<br>Net Capital Assets | 43 |
| Interest Coverage | Cash Flow from Operations<br>Interest Expense | 44 |
| Debt Service Coverage | Cash Flow from Operations<br>Debt Service Expense | 45 |